

Chapter 2: Understanding Business Ethics and Social Responsibility

Chapter Overview

Just because others see something as ethical, doesn't mean you will agree. There is not always a yes/no, right/wrong, black/white answer to everything. We all develop a personal code of ethics that we carry over into our jobs. Sometimes we decide what is ethical based on what is acceptable to others—even though the behavior may be unethical.

This chapter presents a discussion of business ethics, the role of a formal code of ethics, as well as business approaches to social responsibility. The chapter also discusses how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors, and how issues of social responsibility and ethics affect small business.

Learning Objectives

1. Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.
2. Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.
3. Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.
4. Identify four general approaches to social responsibility and note the role of social responsibility in small business.
5. Explain the role of government in social responsibility in terms of how governments and businesses influence each other.
6. Discuss how businesses manage social responsibility in terms of both formal and informal dimensions and how organizations can evaluate their social responsibility.

LIST OF IN-CLASS ACTIVITIES: AUTHOR'S CHOICE

Activity	Description	Time Limit
1. Ice-Breaker: What's Ethical in Business?	Students share their views on business ethics.	20 min.
2. Class Discussion: Ethical Judgment Making	Students discuss how ethical norms affect ethical judgments.	15 min.
3. Up for Debate: Can Ethics Be Taught?	Students discuss varying opinions on ethics training as a class.	30 min.

CHAPTER OUTLINE

Learning Objective 1

Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.

Ethics in the Workplace

Ethics are beliefs about wrong and right or bad and good; **ethical behavior** conforms to individual beliefs and social norms about what is right and good. **Business ethics** refers to ethical or unethical behaviors by employees in the context of their jobs.

A. Individual Ethics

Ethics are based on individual beliefs and social concepts; thus, they vary by person, situation, and culture.

1. **Ambiguity, the Law, and the Real World.** Societies adopt formal laws that reflect ethical standards; however, real-world situations are sometimes difficult to interpret.
2. **Individual Values and Codes.** Individuals' personal codes of ethics are determined by a combination of factors.

B. Business and Managerial Ethics

Managerial ethics are the standards of behavior that guide individual managers in their work.

1. **Behavior toward Employees.** This category covers hiring and firing, wages and working conditions, and privacy and respect.
2. **Behavior toward the Organization.** Conflict of interest, confidentiality, and honesty are ethical issues. A **conflict of interest** occurs when an activity may benefit the individual to the detriment of the organization. Many organizations have policies that forbid buyers and other personnel from accepting gifts from suppliers or customers thus avoiding even the appearance of bribery.
3. **Behavior toward Other Economic Agents.** Ethics also comes into play in the relationship between the firm and a number of primary agents of interests, such as customers, suppliers, competitors, stockholders, dealers, and unions. In 2009, Bernard Madoff's Ponzi scheme (investment scam) cost hundreds of clients their life savings as he led them to believe that their investments were safe.

C. Assessing Ethical Behavior

1. A similar process that is often recommended when making ethical decisions is for the person to (1) gather relevant information, (2) analyze the facts to determine the most appropriate moral values, and (3) make an ethical decision based on the rightness or

wrongness of the proposed activity or policy. Although ethical judgments are not always easy to make or even always agreed upon, this process does at least give a good starting point for an ethical decision making process.

Ethical *norms* include:

1. **Utility:** Does a particular act optimize the benefits to those who are affected by it?
2. **Rights:** Does it respect the rights of all individuals involved?
3. **Justice:** Is it consistent with what's fair?
4. **Caring:** Is it consistent with people's responsibilities to each other?

D. Company Practices and Business Ethics

Many companies set up codes of conduct and develop clear ethical positions on how the firm and its employees will conduct business.

1. **Adopting Written Codes.** Almost all major corporations have written codes of ethics.
2. **Instituting Ethics Programs.** Ethical responses can be learned through experience; companies must take the responsibility for educating employees. More and more companies, like Boeing and ExxonMobil, require managers to go through regular ethics training to remind them of the importance of ethical decision making and to update them on current laws and regulations.

KEY TEACHING TIP

Remind students that *individual ethics* vary by person, situation, and culture. What is acceptable and unacceptable is broad enough that people may develop varying behaviors without violating general standards.

QUICK QUESTIONS

- What people and experiences have helped shape your individual code of ethics?
- What are some examples of conflicts of interest?

Use In-Class Activity 1: Ice-Breaker: What's Ethical in Business?

Time Limit: 20 minutes

Use In-Class Activity 2: Class Discussion: Ethical Judgment Making

Time Limit: 15 minutes

Learning Objective 2:

Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.

Social Responsibility

Social responsibility refers to the overall way in which a business itself tries to balance its commitments to relevant groups and individuals in its social environment.

A. The Stakeholder Model of Responsibility

Most companies strive to be ethically responsible to five main groups:

1. **Customers.** Critical factors include charging fair prices, honoring warranties, and standing behind product quality.
2. **Employees.** Treating workers fairly, making them a part of the team, and respecting their dignity promote a company's reputation.
3. **Investors.** Managers must follow proper accounting procedures, provide appropriate information to shareholders, and manage the organization to protect shareholder investments.
4. **Suppliers.** Partnership arrangements with suppliers can enhance market image and firm reputation.
5. **Local and International Communities.** Contributing to local and global programs has a positive impact on the community.

B. Contemporary Social Consciousness

Views toward social responsibility continue to evolve as managers work to meet the needs of various stakeholders in their business practices.

1. The concept of social responsibility has been developing since the days of **John D. Rockefeller, J. P. Morgan** and **Cornelius Vanderbilt**.
2. Unfortunately, the recent spate of **corporate scandals** colors the public's perception of business in negative hues.

KEY TEACHING TIP

Remind students that actions deemed unethical in the United States may be ethical in other countries, and vice versa. For example, in some countries outside of the United States, bribing is acceptable and even expected in business.

QUICK QUESTION

- How can companies benefit from adopting a written code of ethics?

Use In-Class Activity 3: Up for Debate: Can Ethics Be Taught?

Time Limit: 20 minutes

HOMEWORK

Social Responsibility

Now is a good time to assign Application Exercises 9 from the end-of-chapter materials as homework. This assignment asks students to think about prioritizing various groups of stakeholders toward which an organization acts socially responsible.

At-Home Completion Time: 30 minutes

Key Teaching Tip for Online Classes

The End of Chapter, **Building Your Business Skills**. *To Lie or Not to Lie: That Is the Question* is a good online assignment. Have students post their responses in Step 1 to the class discussion board. For Step 3 have students work as small virtual teams to draft a corporate code of ethics. Let their fellow classmates critique and post comments.

At-Home Completion Time: 30 minutes for individual assignments and 45 minutes for group project.

Learning Objective 3:

Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.

Areas of Social Responsibility

A. Responsibility toward the Environment

1. **Air Pollution:** Under new laws, many companies must install special devices to limit pollutants they expel into the air.
2. **Water Pollution:** Increased awareness of chemical and waste dumping and the resulting dangers has led to improved water quality in many areas of the country.
3. **Land Pollution:** Proper **toxic waste** disposal and recycling programs are allowing companies to help restore land quality and to prevent further contamination. **Recycling** is another controversial area in land pollution. Recycling, the reconversion of waste materials into useful products, has become an issue not only for municipal and state governments but also for many companies engaged in high waste activities.

B. Responsibility toward Customers

1. **Consumer Rights:** Consumerism is social activism dedicated to protecting the rights of consumers in their dealings with businesses.
2. **Unfair Pricing:** Collusion occurs when two or more firms agree to collaborate on wrongful acts, such as *price fixing*; *price gouging* occurs when firms respond to increased demand with steep price increases.
3. **Ethics in Advertising:** Consumers deserve to be given product information that is truthful and can be proven, as well as information that is not morally objectionable.

C. Responsibility toward Employees

1. **Legal and Social Commitments:** Recruiting, hiring, training, promoting, and compensating are the basis for social responsibility toward employees; a **whistle-blower** is an employee who discovers and tries to end a company's unethical, illegal, or irresponsible actions by publicizing them. Most organizations now have whistleblower policies to protect whistleblowers from retaliation.

D. Responsibility toward Investors

Improper Financial Management: **Insider trading** occurs when someone uses confidential information to benefit from the purchase or sale of stocks. Misrepresentation of finances is where unethical managers project profits that they do not expect to get or hide losses and expenses incurred to boost paper profits. **Misrepresentation of Finances** In maintaining and reporting its financial status, every corporation must conform to generally accepted accounting principles

QUICK QUESTIONS

- What are some examples of what companies do to act in a socially responsible way toward customers? Toward employees?
- What are some ways in which organizations act in a socially responsible way toward the environment?

Learning Objective 4:

Identify four general approaches to social responsibility and note the role of social responsibility in small business.

Implementing Social Responsibility Programs

A. Approaches to Social Responsibility

1. **Obstructionist Stance:** Organizations do as little as possible to solve social or environmental problems.
2. **Defensive Stance:** Organizations will do everything that is required of them legally but nothing more.
3. **Accommodative Stance:** The organization meets its legal and ethical requirements but will also go further in certain cases.
4. **Proactive Stance:** Firms that adopt this approach take to heart the arguments in favor of social responsibility.

B. Social Responsibility and the Small Business

Many big-business responses to ethical and social responsibility issues apply to small businesses; differences are primarily differences of scale. Small business owners are faced by the same ethical dilemmas as the large companies that we more frequently read about. It is important that small companies develop ethical policies and procedures like their larger counterparts. Small businesses can often get advice from trade organizations or state governments to help them develop ethical codes of practices.

KEY TEACHING TIPS

- Make sure that students understand that firms taking the *obstructionist stance* usually do as *little as possible* to solve social or environmental problems. If possible, list some examples of firms that take such a stance.
- Remind students that firms taking an *accommodative stance* meet their legal and ethical requirements and may also go further in certain cases.
- Many corporate acts of social responsibility have been court-ordered. The use of biodegradable packaging, for example, may not be the choice of individual companies but rather mandated by the government as a means to protect the environment.
- Remind students that contemporary social consciousness varies, depending on how turbulent the social, political, and economic times are.
- Make sure students understand that social responsibility programs must be initiated and

supported by top management; ultimately, a social responsibility program involves *everyone* in the organization.

- Reinforce that small-business responses to social responsibility are similar to big-business responses—the only difference is scale.

HOMEWORK

Identifying Approaches to Social Responsibility

Now is a good time to assign Application Exercise 10 from the end-of-chapter materials in the textbook. The assignment asks students to use newspapers, magazines, and other references to identify three companies that take a defensive stance to social responsibility, three that take an accommodative stance, and three that take a proactive stance.

At-Home Completion Time: 1 hour

Learning Objective 5

Explain the role of government in social responsibility in terms of how governments and businesses influence each other.

The Government and Social Responsibility

An especially important element of social responsibility is the relationship between business and government.

A. How Governments Influence Organizations

The government (national, state, or local) attempts to shape social responsibility practices through both direct and indirect channels. Direct influence most frequently is manifested through *regulation*, whereas indirect influence can take a number of forms, most notably taxation policies.

1. **Direct Regulation:** The government most often directly influences organizations through **regulation**, the establishment of laws and rules that dictate what organizations can and cannot do. This **regulation** usually evolves from social beliefs about how businesses should conduct themselves. Another approach that governments can use to regulate business practices is through legislation.

2. **Indirect Regulation:** Other forms of regulation are **indirect**. For example, the government can indirectly influence the social responsibility of organizations through its tax codes. In effect, the government can influence how organizations spend their social responsibility dollars by providing greater or lesser tax incentives.

B. How Organizations Influence Government

Just as governments can influence businesses, so too can businesses influence the government.

1. **Personal Contacts:** Because many corporate executives and political leaders travel in the same social circles, personal contacts and networks offer one method of influence.

2. **Lobbying:** **Lobbying**, or the use of persons or groups to formally represent an Organization or group of organizations before political bodies, is also an effective way to influence the government.

3. **Political Action Committees:** **Political action committees (PACs)** are special organizations created to solicit money and then distribute it to political candidates.

4. **Favors:** Finally, organizations sometimes rely on **favors** and other influence tactics to gain support. Although these favors may be legal, they are still subject to criticism.

Learning Objective 6

Discuss how businesses manage social responsibility in terms of both formal and informal dimensions and how organizations can evaluate their social responsibility.

Managing Social Responsibility

The demands for social responsibility placed on contemporary organizations by an increasingly sophisticated and educated public are stronger than ever.

A. Formal Organizational Dimensions

1. **Legal Compliance:** **Legal compliance** is the extent to which the organization conforms to local, state, federal, and international laws.
2. **Ethical Compliance:** **Ethical compliance** is the extent to which the members
3. **Philanthropic Giving:** Finally, **philanthropic giving** is the awarding of funds or gifts to charities or other worthy causes. of the organization follow basic ethical (and legal) standards of behavior.

B. Informal Organizational Dimensions

1. **Organization Leadership and Culture:** **Leadership practices** and **Organizational culture** can go a long way toward defining the social responsibility Stance an organization and its members will adopt. Ethical leadership often sets the tone for the entire organization.
2. **Whistle-Blowing:** **Whistle-blowing** is the disclosure by an employee of illegal or unethical conduct on the part of others within the organization. How an organization responds to this practice often illustrates its stance on social responsibility.

C. Evaluating Social Responsibility

To make sure their efforts are producing the desired benefits, any business that is serious about **social responsibility** must apply the concept of control to social responsibility. Many organizations now require all employees to read their guidelines or **code of ethics** and then sign a statement agreeing to abide by it.

More formally, an organization may sometimes actually evaluate the effectiveness of its social responsibility efforts. Additionally, some businesses occasionally conduct a **corporate social audit**, a formal and thorough analysis of the effectiveness of a firm's social performance.

IN-CLASS ACTIVITIES

In-Class Activity 1: Ice-Breaker

What's Ethical in Business?

Activity Overview:

This exercise asks students to share their views on business ethics.

Time Limit: 20 minutes

What to Do:

1. Ask students to identify examples of recent ethical business practices. Examples: Donating a percentage of profits to charity and community causes (Ben & Jerry's donates 7.5 percent of pretax profits and Levi Strauss donates 2.4 percent of pretax profits to a variety of causes), encouraging employees to volunteer using paid work time (Walt Disney's VoluntEARS program), and recycling (McDonald's has an environmental protection program). (10 minutes)
2. Ask students to identify examples of recent unethical business practices. Examples: Forwarding "marketing research" results to salespeople, marketing R-rated movies to kids, and deliberately selling cigarettes or alcohol to minors. (10 minutes)

Don't Forget:

You might want to come prepared with numerous recent, local examples of ethical and unethical business practices to share with students.

Wrap-Up:

Wrap up the discussion by encouraging students to think about whether these kinds of business practices are consistent with an organization's responsibility to maximize profits, for example, which typically sparks a lively debate.

In-Class Activity 2: Class Discussion

Ethical Judgment Making

Activity Overview:

This activity asks students to consider ethical norms when making an ethical judgment.

Time Limit: 15 minutes

What to Do:

1. Ask students to review the ethical norms outlined in the textbook: utility, rights, justice, and caring. (5 minutes)
2. Ask students to think of an ethical situation in which these norms did or did not prevail, sharing whatever they can with the class. (10 minutes)
3. During the spring semester, if your college/university has a Dr. Martin Luther King Observance, you can encourage your students to attend. At the next class period, ask students to discuss Dr. King's civil rights activities and how it changed ethical judgment making in the United States. The discussion can cover historical changes in norms, society's response to the changes, and the impact on individuals' decisions.

Don't Forget:

You might want to come to class with examples of an ethical situation illustrating each of the norms. This exercise can also be assigned as homework.

Wrap-Up:

Wrap up the discussion by reminding students that with utility, considering what is fair to all relevant parties involved is often based on perception.

In-Class Activity 3: Up for Debate: Can Ethics Be Taught?

Activity Overview:

This activity asks students to share their opinions on ethics training.

Time Limit: 20 minutes

What to Do:

1. As a class, ask students to consider whether ethics can be taught. Is ethics training valuable or does ethical behavior stem more from how we are raised?
2. For those students who believe that ethics can be taught and that ethics training is valuable, allow 10 minutes for discussion.
3. For those students who believe that ethical behavior comes more from how we are raised and that ethics training really does not affect our ethical behavior in the long run, allow 10 minutes for discussion.

Don't Forget:

As students are supporting or refuting the benefits of ethics training, be sure to have them cite specific examples to back up their opinions.

Wrap-Up:

Wrap up the discussion by reminding students that companies sometimes issue written codes of ethics to ensure their ethical norms are upheld. The effectiveness of such codes of ethics often sparks lively debate as well.

ANSWERS FOR END OF CHAPTER ACTIVITIES

QUESTIONS FOR REVIEW

1. Students should address the circumstances of each issue: legal implications, personal codes of ethics, and the effect of the decision on others. They should also refer to the four ethical considerations discussed in the chapter (utility, rights, justice, caring). **(Learning Objective 1, AACSB -analytical thinking, application of knowledge)**
2. Stakeholders include customers, employees, investors, suppliers, and the firm's local communities. Most businesses should be concerned with all stakeholder groups, although areas of emphasis may differ for individual businesses. **(Learning Objective 2, AACSB - analytical thinking)**
3. The major areas include the environment, customers, employees, and investors. **(Learning Objective 3, AACSB - analytical thinking)**
4. The four basic approaches to social responsibility are:
 - **Obstructionist:** Does as little as possible to promote social responsibility.
 - **Defensive:** Meets minimal legal requirements regarding social responsibility.
 - **Accommodative:** Exceeds minimum requirements only by special request.
 - **Proactive:** Actively seeks opportunities to contribute to the social environment.**(Learning Objective 4, AACSB, analytical thinking)**
5. Governments influence organizations through direct and indirect regulation. **(Learning Objective 5, AACSB - analytical thinking)**

QUESTIONS FOR ANALYSIS

6. Answers will vary, but students should comment that wrongdoing, which directly affects them as an individual will likely prompt them to blow the whistle quickly. Wrongdoing that indirectly affects them or another department or division may tend to be ignored longer and least likely prompt the individual to blow the whistle. **(Learning Objective 6, AACSB - application of knowledge)**
7. Answers will vary, but many students will recognize the importance of balancing the attention given to each of the areas. Some companies, such as retailers, will affect the environment little; in these instances, students will likely recognize responsibility toward the customer as being the most important. On the other hand, many students will recognize that manufacturers need to pay particular attention to the environment in the implementation of their production processes. **(Learning Objective 4, AACSB -application of knowledge)**

8. The challenges will vary widely from country to country depending on the host country laws. It is an accepted business practice in many countries to bribe government officials to “facilitate” projects. Since this is illegal under the Foreign Corrupt Practices Act, this puts American companies at a disadvantage. If the company does bribe a foreign official there are tremendous, ethical as well as legal and financial considerations. **(Learning Objective 5, AACSB -application of knowledge, ethical understanding and reasoning)**

APPLICATION EXERCISES

9. Students personal code of ethics will probably focus on personal relationships, honesty, lying etc. This exercise gives students an opportunity to consider the impact of their ethical behavior. **(Learning Objective 1, AACSB -application of knowledge)**
10. Students should remember that a defensive stance is one in which companies do everything that is required of them legally, but nothing more. Companies taking an accommodative stance meet their legal and ethical requirements, but also go further in certain cases. Companies taking a proactive stance will go over and beyond what is required of them in meeting the needs of stakeholders. **(Learning Objective 4, AACSB-application of knowledge)**

BUILDING A BUSINESS: CONTINUING TEAM EXERCISES 2- 11 - 14

(Learning Objective 6, AACSB -application of knowledge, interpersonal relations and teamwork, ethical understanding and reasoning)

This exercise challenges the students to be proactive and think about possible ethical dilemmas their company face. The team responses will vary but many teams will choose to complete a formal statement of company practices and business ethics since this is a proactive approach to prevent future problems.

The primary stakeholders for most of the teams will be the owners, employees, possible suppliers, and the general public. Many students will choose to develop a formal social responsibility program recognizing that it is good business where others will see it as a cost with no advantages.

BUILDING YOUR BUSINESS SKILLS: TO LIE OR NOT TO LIE

(Learning Objective 1, AACSB -application of knowledge, ethical understanding and reasoning)

15. Answers will vary, but students may consider such factors as the person’s sense of right and wrong, desire for gain at any cost, and culture as possible factors.
16. Answers will vary, but most students will cite examples that reflect combinations of contradictory ideas.
17. Answers will vary, but students should recognize that top-management’s support and example are most important.
18. Students’ answers will depend on who might be harmed in the lies. Students should

recognize that inflating sales and revenue data on official company statements to increase stock value potentially harms stakeholders and the reputation of the company more than merely telling someone on the phone that the boss is “in a meeting” when he or she is not. Students should also note the legal issues when responding to the ethical dilemmas.

EXERCISING YOUR ETHICS: THE CASE OF ORPHAN DRUGS

(Learning Objective 4, AACSB -application of knowledge, ethical understanding and reasoning)

19. Answers will vary, but students may notice that defending social responsibility yields personal PR benefits. This also happens on a larger scale to companies that promote social responsibility.
20. Answers will vary, but many students will likely accept that businesses should act in socially responsible ways as long as such actions are in compliance with the law and meet the needs of stakeholders.
21. Answers will vary, but students should note that, unlike business, the primary purpose of these kinds of organizations is to promote the greater social well-being.

TEAM EXERCISE: ON THE VERGE OF COLLAPSE (Learning Objective 4, AACSB - application of knowledge, interpersonal relations and teamwork, ethical understanding and reasoning)

The students should discuss the various groups to whom they are responsible: the stockholders, employees, the suppliers, the suppliers’ employees, etc. This exercise should also generate a lot of discussion about profits versus ethics and how a company should and could balance the two.

CASES

IS FAIR TRADE REALLY FAIR? (Learning Objective 4, AACSB -application of knowledge, ethical understanding and reasoning)

27. The biggest trade-off is the price to the consumer who is willing to pay the much higher price of fair trade cocoa. Answers will vary but many students will think the trade-offs maybe very unfair to consumers
28. Answers will vary depending on students’ tastes, incomes, etc.
29. Students will note that some parties might label products “fair trade” when in fact they are not. Under this scenario, a company could make additional profits without benefitting those whom fair trade is supposed to help.
30. Fair trade might actually harm the producers if it prices their products out of the market. If consumers deem the price too high, they may simply stop buying fair trade products.

WHEN MOTHER NATURE STORMS IN (Learning Objective 5, AACSB -application of knowledge, ethical understanding and reasoning)

31. Many students will probably respond that many retailers did not maintain prices but instead took of advantage of the situation. Other students will note that many other retailers acted ethically and responsively.
32. Some students will respond that social responsibility can be good for business since a sincere commitment to improving the general social welfare can generate positive publicity and enhance a company's standing in the community. Others might believe that it is too costly and generates limited returns.

Besides generating goodwill for Whirlpool, the donation was a marketing coup that was highlighted in ads for Whirlpool.

33. Home Depot's approach to social responsibility would be characterized as a proactive stance where companies seek opportunities to contribute to the well-being of groups and individuals in its social environment.
34. Answers will vary but many students will believe that U.S. businesses have a greater responsibility to support rebuilding in New Jersey rather than Haiti.
35. Answers will vary but most students will answer that it is appropriate for the government to take a very active role in recovering from natural disasters. This is an opportunity to challenge students on their attitude toward taxes, government spending, and personal responsibility.