Business Ethics and Social Responsibility

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Learning Objectives

1. Explain the concern for ethical and societal issues
2. Describe the contemporary ethical environment
3. Discuss how organizations shape ethical conduct
4. Describe how businesses can act responsibly to satisfy society
5. Explain the ethical responsibilities of businesses to investors and the financial community
Concern for Ethical and Societal Issues

- Business Ethics
  - The standards of conduct and moral values governing work actions and decisions

- Social Responsibility
  - How a business decision impacts the environment, employees, and customers
  - Enhancement of society’s welfare through philosophies, policies, procedures, and actions
  - Balance between what is right and what is profitable in a given situation
Concern for Ethical and Societal Issues (continued)

- Firms have many responsibilities—to customers, to employees, to investors, and to society as a whole
- Often no clear-cut choices
- Business ethics are often shaped by the organization’s ethical climate
  - Codes of conduct
  - Ethical standards
  - Doing the right things should be supported and applauded
The Contemporary Ethical Environment

- High-profile investigations and arrests in headlines
- Corporate Social Responsibility Benefits
  - Consumers
  - Investors
  - The environment
  - The companies themselves
- The vast majority of businesses are ethical
- New corporate officers charged with deterring wrongdoing and ensuring ethical standards
- Access Coca-Cola’s Global Sustainability Report
Johnson & Johnson has abided by its basic code of ethics for more than 70 years.

The credo is the ethical standard against which the employees evaluate how well their firm is performing.

**Our Credo**

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens—support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

Coca-Cola Company’s Global Sustainability Goals

- To economically empower 5 million women entrepreneurs across its value chain by 2020
- To meet 2020 water use and efficiency reduction and replenishment goals
- To offer more than 800 low- and no-calorie options worldwide or 25 percent of its global product portfolio.
The Contemporary Ethical Environment

- Sarbanes Oxley Act
  - A 2002 law that added oversight for the nation’s major companies
  - Includes a special oversight board to regulate public accounting firms that audit the financial records of these corporations
  - New rules and regulations for securities trading and accounting practices
  - Companies are required to publish a code of ethics
  - Development of ethical compliance programs
  - Provides safeguards for whistleblowers
Current Ethical Environment

- Current environment includes ethical compliance officers
- Companies adopt a three-pronged approach to ethics and social responsibility
  - Corporate philanthropy
  - Anticipating and managing risks
  - Identifying opportunities to create value by doing the right thing
## Minimum Requirements for Ethics Compliance Programs

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<th>Compliance standards and procedures. Establish standards and procedures, such as codes of ethics and identification of areas of risk, capable of reducing misconduct or criminal activities.</th>
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<td>High-level personnel responsibility. Assign high-level personnel, such as boards of directors and top executives, the overall responsibility to actively lead and oversee ethics compliance programs.</td>
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<td>Due care in assignments. Avoid delegating authority to individuals with a propensity for misconduct or illegal activities.</td>
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<td>Communication of standards and procedures. Communicate ethical requirements to high-level officials and other employees through ethics training programs or publications that explain in practical terms what is required.</td>
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<td>Establishment of monitoring and auditing systems and reporting system. Monitor and review ethical compliance systems, and establish a reporting system employees can use to notify the organization of misconduct without fear of retribution.</td>
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<td>Enforcement of standards through appropriate mechanisms. Consistently enforce ethical codes, including employee discipline.</td>
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<td>Appropriate responses to the offense. Take reasonable steps to respond to the offense and to prevent and detect further violations.</td>
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<td>Self-reporting. Report misconduct to the appropriate government agency.</td>
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<td>Applicable industry practice or standards. Follow government regulations and industry standards.</td>
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Individuals Make a Difference

- Individuals can make the difference in the ethical environment of an organization
- Ethical behavior is identified as:
  - Putting one’s own interest ahead of the organization
  - Lying to employees
  - Misrepresenting hours
  - Safety violations
  - Internet abuse
- Technology has expanded unethical behavior
- All employees face ethical dilemmas
Development of Individual Ethics

- Individuals develop ethical standards in the three stages
  - Preconventional
  - Conventional
  - Postconventional
Situation in which an action benefitting one person or group can potentially harm another

Employee’s disclosure of illegal, immoral, or unethical practices in the organization

Telling the truth and adhering to deeply felt ethical principles in business situations

Employees are expected to be loyal, and to act in the best interests of the company, but an ethical conflict can arise when the truth about a company is not favorable
Structure of an Ethical Environment
Ethical Awareness

- Awareness is the foundation of an ethical climate
- Ethical dilemmas will occur
- Help employees identify ethical problems
- Give employees guidance to respond

- A code of conduct is a way to provide support
  - A formal statement
  - Defines how the organization expects employees to resolve ethical questions
Ethical Education

- A code of conduct provides only a framework
- Business must provide tools to evaluate options
- Many firms have instituted ethics training programs

- Some question whether ethics can be taught
- Training gives employees the chances to apply ethical values to hypothetical situations
Ethical Action

- Firms must allow structures and approaches
- Structure allow decisions to be turned into ethical actions
- Set realistic goals
- An employee hotline with ethics officers can provide advice
Texas Instruments provides its employees with questions on a reference card:

- Is the action legal?
- Does it comply with our values?
- If you do it, will you feel bad?
- How will it look in the newspaper?
- If you know its wrong, don’t do it!
- If you’re not sure, ask
- Keep asking until you get an answer
Ethical Leadership

- Executives must demonstrate ethical behavior in their actions
  - Use clear, explicit language
  - Encourage behavior that generates and fosters values
  - Practice moral absolutism
- Without a framework of ethics, damage can impact shareholders
- Stakeholders include customers, investors, employees, and the public
Acting Responsibly to Satisfy Society

- **Social Responsibility**
  - Equal value in considering profit, consumer satisfaction, and societal well-being
  - Concerns with qualitative dimensions and traditional quantitative measures

- A firm’s social performance is measured through a social audit, and by:
  - Equal employment opportunities
  - Cultural diversity
  - Environmental concerns
  - Safe and healthy workplace
  - Charitable contributions and community service
Business’s Social Responsibilities

Figure 2.5: Business’s Social Responsibilities

- To the General Public
- To Customers
- To Investors and the Financial Community
- To Employees
Responsibilities to the General Public

- Public Health Issues
  - Dangerous products

- Protecting the Environment
  - Using resources efficiently

- Developing a quality workforce
  - Education and diversity initiatives

- Corporate philanthropy
  - Contributions and volunteer efforts
Responsibilities to Customers

- The public demands that a company considers the wants and needs of its customers in making decisions
- Consumers have certain rights, as follows:
  - The right to be safe
  - The right to be informed
  - The right to choose
  - The right to be heard
Responsibilities to Employees

- Workplace Safety
- Quality-of-Life Issues
- Ensuring Equal Opportunity on the Job
- Age Discrimination
- Sexual harassment and sexism
Responsibilities to Investors and the Financial Community

- Obligation to make profits for shareholders
- Expectation of ethical and moral behavior
- Protection of investors by the Securities and Exchange Commission and state regulations