

**Business Ethics  
and  
Social  
Responsibility**

**chapter two**

Business Essentials  
9e  
Ebert/Griffin

After reading this chapter, you should be able to:

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.

After reading this chapter, you should be able to:

4. Identify four general approaches to social responsibility and describe the four steps that a firm must take to implement a social responsibility program.
5. Explain how issues of social responsibility and ethics affect small business.

# Ethics in the Workplace

## ➤ **Ethics**

- └ beliefs about what is right and wrong or good and bad in actions that affect others

## ➤ **Business ethics**

- └ refers to ethical or unethical behaviors by employees in the context of their jobs

# Ethics in the Workplace

## ➤ Ethical behavior

└ behavior that conforms to individual beliefs and social norms about what's right and good

## ➤ Unethical behavior

└ behavior that conforms to individual beliefs and social norms about what is defined as wrong and bad

# Business and Managerial Ethics

## ➤ **Managerial Ethics**

- └ standards of behavior that guide individual managers in their work

**Behavior toward Employees**

**Behavior toward the Organization**

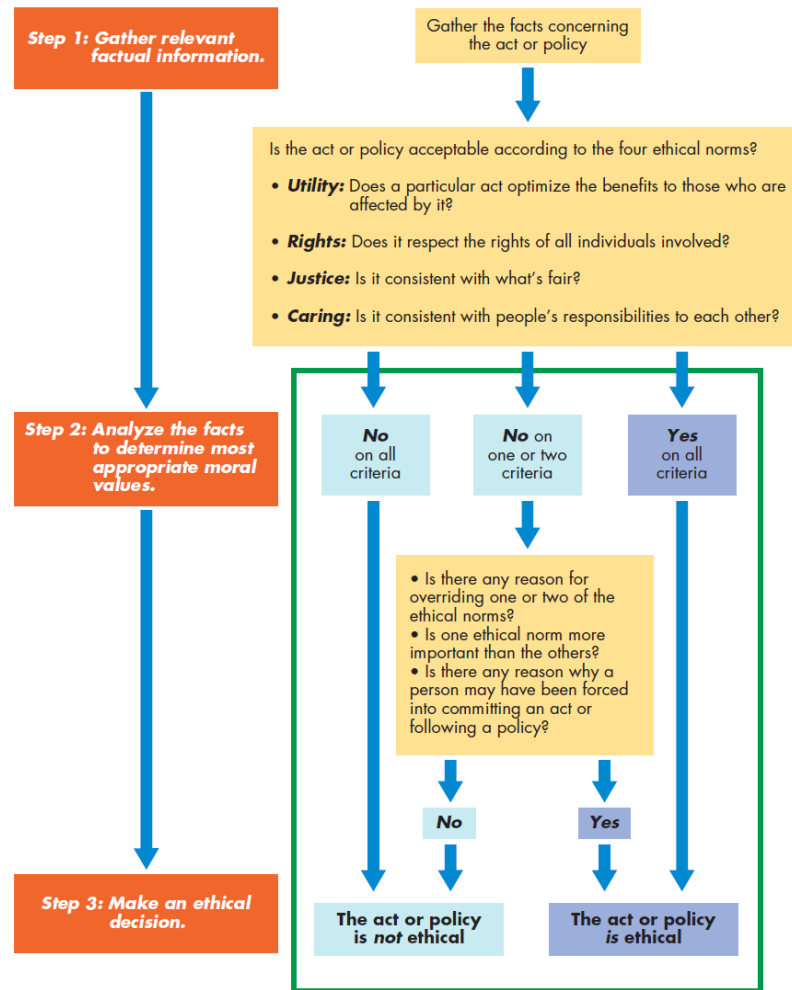
**Behavior toward Other Economic Agents**

# Assessing Ethical Behavior

1. Gather the relevant factual information
2. Analyze the facts to determine the most appropriate moral values
3. Make an ethical judgment based on the rightness or wrongness of the proposed activity or policy

# Model of Ethical Judgment Making

**Figure 2.1** Model of Ethical Judgment Making





# Company Practices and Business Ethics

Two of the most **common approaches** to formalizing top management commitment to **ethical** business practices:

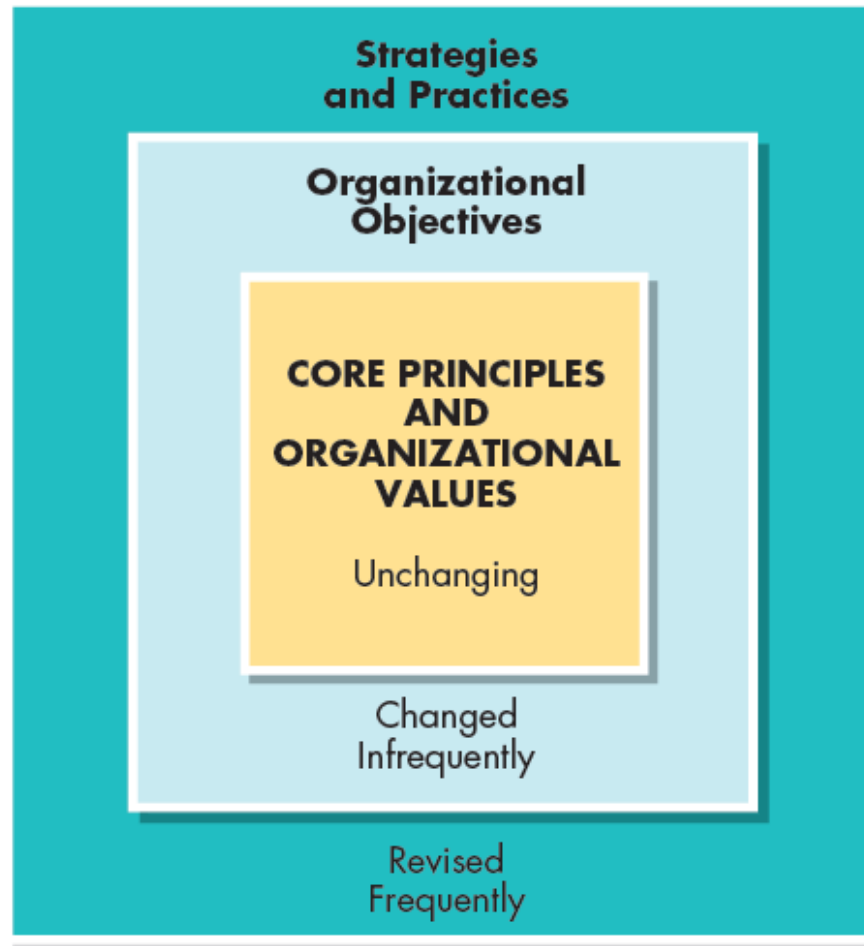
- Adopting written codes
- Instituting ethics programs

# Adopting Written Codes – The HP Way

- We have trust and respect for individuals.
- We focus on a high level of achievement and contribution.
- We conduct our business with uncompromising integrity.
- We achieve our common objectives through teamwork.
- We encourage flexibility and innovation.

# Core Principles and Organizational Values

**Figure 2.2** Core Principles  
and Organizational Values



# Social Responsibility

## ➤ **Social responsibility**

- └ refers to the overall way in which a business attempts to balance its commitments to relevant groups and individuals in its social environment

# Social Responsibility

## ➤ **Organizational Stakeholders**

- └ those groups, individuals, and organizations that are directly affected by the practices of an organization and who therefore have a stake in its performance

# Major Corporate Stakeholders

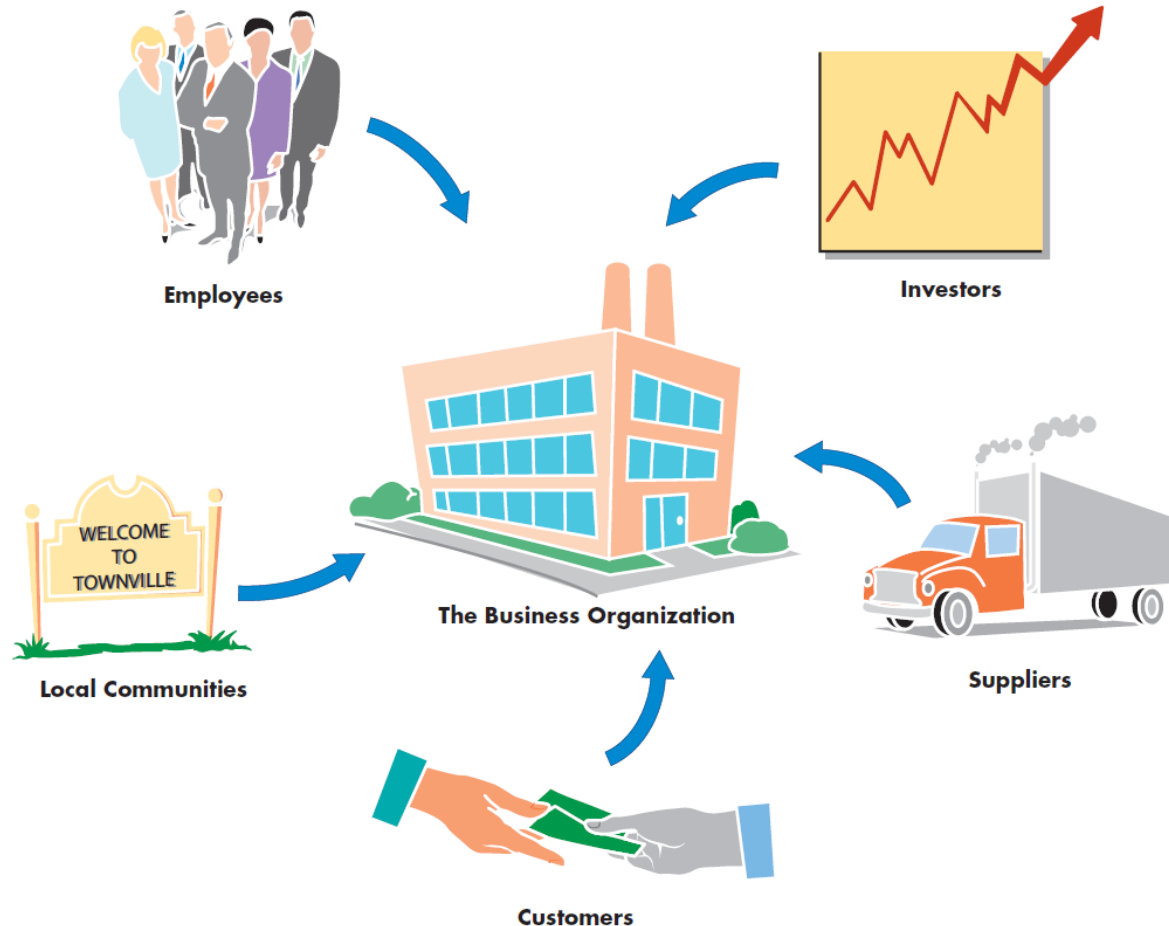


Figure 2.3 Major Corporate Stakeholders

# The Stakeholder Model of Responsibility

Most companies that strive to be responsible to their **stakeholders** concentrate first and foremost on five main groups:

- Customers
- Employees
- Investors
- Suppliers
- Local communities where they do business

# The Stakeholder Model of Responsibility

## ➤ Customers

- └ Treat customers fairly and honestly

## ➤ Employees

- └ Treat employees fairly and respect their dignity and basic human needs

## ➤ Investors

- └ Follow proper accounting procedures; provide information to shareholders about financial performance



# The Stakeholder Model of Responsibility

## ➤ **Suppliers**

- └ Create mutually beneficial partnership arrangements with suppliers

## ➤ **Local and International Communities**

- └ Involvement in programs and charities

# Contemporary Social Consciousness

## ➤ **The Concept of Accountability**

- └ The expectation of an expanded role for business in protecting and enhancing the general welfare of society

# Areas of Social Responsibility

**Environment**

**Customers**

**Employees**

**Investors**

# Responsibility toward the Environment

- Air pollution
- Water pollution
- Land pollution
  - └ Toxic waste disposal
  - └ Recycling

# Responsibility toward Customers

## ➤ **Consumer rights**

- └ Consumerism – social activism dedicated to protecting the rights of consumers in their dealings with businesses

## ➤ **Unfair pricing**

- └ Collusion – two or more firms collaborate on such wrongful acts as price fixing
- └ Price gouging

# The Elements of Green Marketing

**TABLE 2.1 The Elements of Green Marketing**

- **Production Processes** Businesses, like Ford Motors and General Electric, modify their production processes to limit the consumption of valuable resources like fossil fuels by increasing energy efficiency and reduce their output of waste and pollution by cutting greenhouse gas emissions.
- **Product Modification** Products can be modified to use more environmentally friendly materials, a practice S.C. Johnson encourages with its Greenlist of raw materials classified according to their impact on health and the environment. Committed to only using the safest materials on this list, S.C. Johnson eliminated 1.8 million pounds of volatile organic compounds from its glass cleaner Windex.<sup>10</sup>
- **Carbon Offsets** Many companies are committed to offsetting the CO<sub>2</sub> produced by their products and manufacturing processes. In 2007, Volkswagen began a program of planting trees (which consume CO<sub>2</sub> during photosynthesis) in the so-called VW Forest in the lower Mississippi alluvial valley to offset the CO<sub>2</sub> emissions of every car they sell.<sup>11</sup>
- **Packaging Reduction** Reducing and reusing materials used in packaging products is another important strategy of green marketing, which Starbucks has pioneered. In 2004 the U.S. Food and Drug Administration gave the coffee retailer the first-ever approval to use recycled materials in its food and beverage packaging. Starbucks estimates that using cups composed of 10 percent recycled fibers reduces its packaging waste by more than 5 million pounds per year.<sup>12</sup>
- **Sustainability** Using renewable resources and managing limited resources responsibly and efficiently are important goals for any business pursuing a green policy. For example, Whole Foods Market is committed to buying food from farmers who use sustainable agriculture practices that protect the environment and agricultural resources, like land and water.

# Consumer Bill of Rights

Figure 2.4 Consumer Bill of Rights

## *Consumer Bill of Rights*

- 1 Consumers have a right to safe products.*
- 2 Consumers have a right to be informed about all relevant aspects of a product.*
- 3 Consumers have a right to be heard.*
- 4 Consumers have a right to choose what they buy.*
- 5 Consumers have a right to be educated about purchases.*
- 6 Consumers have a right to courteous service.*

# Responsibility toward Employees

- A company that provides its employees with equal opportunities **without regard** to race, sex, or other irrelevant factors is meeting both its legal and its social responsibilities



# Responsibility toward Employees

- Provide **opportunities** to balance work and life pressures and preferences
- Help employees maintain **job skills**
- Treat terminated or laid-off employees with **respect** and **compassion**

# Responsibility toward Investors

## ➤ **Insider trading**

- └ using confidential information to gain from the purchase or sale of stocks.

## ➤ **Misrepresentation of finances**

# Approaches to Social Responsibility

**Figure 2.5** Spectrum of Approaches to Corporate Social Responsibility



# Approaches to Social Responsibility

## ➤ **Obstructionist Stance**

└ involves doing as little as possible and may involve attempts to deny or cover up violations

## ➤ **Defensive Stance**

└ company meets only minimum legal requirements in its commitments to groups and individuals its social environment

# Approaches to Social Responsibility

## ➤ **Accommodative Stance**

└ a company, if specifically asked to do so, exceeds legal minimums in its commitments to groups

## ➤ **Proactive Stance**

└ a company actively seeks opportunities to contribute to the well-being of groups and individuals in its social environment

# Managing Social Responsibility Programs

1. Social responsibility must start at the top and be considered a factor in strategic planning
2. A committee of top managers must develop a plan detailing the level of management support
3. One executive must be put in charge of the firm's agenda
4. The organization must conduct occasional social audits

# Social Responsibility and the Small Business

- For **small businesses**, ethical issues are questions of individual ethics
- But in questions of social responsibility, they must ask themselves if they can afford a **social agenda**

# Applying What You've Learned

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.



# Applying What You've Learned

4. Identify four general approaches to social responsibility and describe the four steps that a firm must take to implement a social responsibility program.
5. Explain how issues of social responsibility and ethics affect small business.



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