

Human Resource Management

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F o u r t e e n t h E d i t i o n

Chapter 2 Business Ethics and Corporate Social Responsibility

Ethics, Corporate Social Responsibility, and Corporate Sustainability

Ethics: Discipline of dealing with:

- What is good and bad
- What is right and wrong
- Moral duty and obligation

Corporate social responsibility (CSR):

The implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves



Ethics, Corporate Social Responsibility, and Corporate Sustainability (Cont.)

Corporate sustainability focuses on the possible future impact of an organization on society, including social welfare, the economy, and the environment

Explore the Concept of Business Ethics

- Nearly every industry has experienced a painful ethical crisis in recent years
- Business ethics scandals continue to make headlines
- Examples:
 - Lying on résumés
 - Obstruction of justice
 - Destruction of records
 - Stock price manipulation
 - Cutting corners to meet Wall Street's expectations
 - Fraud, waste, and abuse

Sources of Ethical Guidance

- Lead to our beliefs or convictions about what is right or wrong
- Examples:
 - Bible and other holy books
 - Conscience
 - Significant others
 - Code of ethics

Legislating Ethics

- Procurement Integrity Act
- Federal Sentencing Guidelines for Organizations (FSGO)
- Corporate and Auditing Accountability, Responsibility, and Transparency Act
- Dodd-Frank Wall Street Reform and Consumer Protection Act

Procurement Integrity Act of 1988

- Prohibits release of source selection and contractor bid or proposal information
- Places restrictions on former employees
- Passed after reports of military contracts for:
 - \$500 toilet seats
 - \$5,000 hammer

Federal Sentencing Guidelines for Organizations (FSGO) of 1992

- Outlined effective ethics training program
- Promised softer punishments for wayward corporations that had ethics programs in place
- Executives needed to be proactive
- Created:
 - Ethics officer positions
 - Ethics hotlines
 - Codes of conduct

Corporate and Auditing Accountability, Responsibility, and Transparency Act of 2002

- Known as Sarbanes-Oxley Act
- Primary focus was to redress accounting and financial reporting abuses
- Criminalized many corporate acts
- Established whistleblower protections
- Prohibited loans to executives and directors

Dodd-Frank Wall Street Reform and Consumer Protection Act

- Act brought on by worst financial crisis since Great Depression
- Executive compensation played a major role in financial services sector, as well as in capital markets, following the collapse of investment service firms

Creating an Ethical Culture and Code of Ethics

- Way for firm to create and sustain an ethical culture is to audit ethics
- Climate at the top is fundamental to company's ethical culture
- Firms with weak ethical cultures experience 10 times more misconduct than companies with strong ethical cultures

Code of Ethics

- Statement of values adopted by:
 - Company
 - Its employees
 - Directors
- Sets official tone of top management regarding expected behavior
- Establishes rules by which organization operates
- Becomes part of organization's corporate culture

Ethics Officer

- Larger firms appoint ethics officers
- Keeps code on front burner for employees
- Ethics committee often established

Malcolm Baldrige National Quality Award

- Increased emphasis on ethics in leadership
- Criteria: Senior leaders should serve as role models for the rest of the organization

Human Resource Ethics

- Application of ethical principles to HR relationships and activities
- HR has a great deal to do with establishing an organization's conscience

Linking Pay to Ethical Behavior

- Few companies have made ethics and compliance a process for determining how employees are compensated
- Only about 1 in 6 companies ties incentives to ethical performance
- More work needs to be done

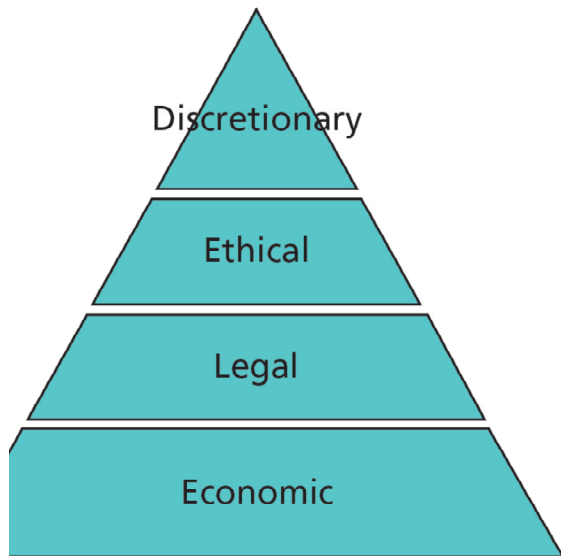
Ethics Training

- FSGO outlined effective ethics training program to educate employees in company's standards and procedures
- Ethics training should be for everyone

Corporate Social Responsibility (CSR)

- **CSR:** Implied, enforced, or felt obligation of managers, acting in their official capacities, to serve or protect interests of groups other than themselves
- Corporation behaves as if it has a conscience

CSR Illustration: Carroll's Pyramid



- **Discretionary responsibilities:** The fourth layer of responsibility is to proactively seek opportunities to make a positive contribution to society beyond profitability, compliance and business ethics. At the discretionary, or voluntary, level, organizations have a responsibility to understand broad stakeholder needs and to address societal concerns through their business practices.
- **Ethical responsibilities:** The third layer of the pyramid requires organizations to consider social and environmental impacts of their operations and, as far as possible, to do no harm while pursuing business interests.
- **Legal responsibilities:** The second aspect of responsibility requires that organizations operate within the law at all locations in which they do business.
- **Economic responsibilities:** The first responsibility of any organization is to deliver an acceptable return for shareholders

Who Determines CSR?

Organization's top executives usually determine a corporation's approach to corporate social responsibility

Not Everyone Is on Board with Corporate Social Responsibility

- Some have challenged the concept by saying that doing well is doing good
- Milton Friedman—Only social responsibility of business is to increase profits
- BP promoted themselves as being eco-friendly

Corporate Sustainability

- Evolved from the more traditional view of corporate social responsibility
- Expanded to include the social, economic, environmental, and cultural systems needed to support an organization
- Strives to use the best business practices

Social Audit

Systematic assessment of a company's activities in terms of their social impact

Possible Types of Social Audits

- Simple inventory of activities
- Compilation of socially relevant expenditures
- Determination of social impact
- Ideal social audit: Involves determining true benefits to society of any socially oriented business activity

Can Corporate Social Responsibility Succeed in the Global Environment?

- Some global firms are questioning the wisdom of being socially responsible
- Adherence to CSR issues has declined
- First 15 years of CSR efforts have not produced the desired results
- Significant changes will have to be made
- Reputation management?