

Essentials of Management

## CHAPTER 3

# Ethics and Social Responsibility

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# Meaning of Business Ethics

- Ethics is the study of moral obligation, or separating right from wrong.
- Ethics converts values into action.
- Unethical acts can be legal or illegal.
- Moral intensity is the magnitude of an unethical act, such as using company jet for a vacation versus taking home a paper clip.

# Philosophical Principles Underlying Business Ethics

1. Focus on consequences and pragmatism (decision is ethical if nobody gets hurt).
2. Focus on rights of individuals (deontology based on universal principles such as honesty and fairness).
3. Focus on integrity (virtue ethics contends that if person has good character and genuine motivation, he or she is ethical).

Use all three for complex ethical decision.

# Values and Ethics

- Values state what is critically important.
- A firm's moral standards and values help guide ethics in decision making.
- Values influence which behaviors we think are ethical.
- Ethically centered management claims that the high quality of an end product more important than scheduled completion date.

# Sources of Unethical Decisions and Behavior

1. Individual characteristics
  - a. Self-interest, including greed and gluttony
  - b. Unconscious bias leading to unjust treatment of others
  - c. Rationalization, or making up good excuses for unethical behavior
  - d. Job dissatisfaction

## *Sources of Unethical Decisions and Behavior, continued*

2. The nature of the moral issue
  - a. Moral intensity is driver of unethical behavior.
  - b. Many people willing to behavior unethically when issue does not appear serious.
  - c. Moral laxity—moral behavior slips because other issues seem more important at the time.

## *Sources of Unethical Decisions and Behavior, concluded*

3. The ethical climate in the organization
  - a. Organizational climate might condone unethical behavior, such as risk taking and illegal behavior.
  - b. Pressure from management to achieve goals can compromise ethics.
  - c. Too much emphasis on meeting financial targets can prompt poor ethics.

# Ethical Temptations and Violations

1. Stealing from employers and customers
2. Illegally copying software
3. Treating people unfairly (discrimination and prejudice)
4. Sexual harassment
5. Conflict of interest (judgment or objectivity is compromised)
6. Accepting kickbacks or bribes for doing business with another company



## *Ethical Temptations and Violations, continued*

7. Divulging confidential information (thereby violating trust)
8. Misuse of corporate resources
9. Extracting extraordinary compensation from the organization
10. Corporate espionage
11. Poor cyberethics

# Business Scandals as Ethical Violations

- Best-known scandals associated with infamous executives.
- Many ethical problems also with Internet fraud, identity theft, work-at-home scams.
- Major financial scandals have enormous financial and personal consequences.
- Well-publicized scandals include (a) click fraud, (b) Enron, (c) fraudulent financial documents, (d) backdating stock options.

# Guide to Ethical Decision Making

1. Is it right?
2. Is it fair?
3. Who gets hurt?
4. Would you be comfortable if your decision were exposed publicly?
5. Would you tell your child (or young relative) to do it?
6. How does it smell?

# Corporate Social Responsibility

- Firms have obligations to society beyond those to owner, stockholder, and those prescribed by law or contract.
- Components of CSR:
  - a. Cognitive (thinking about relationships)
  - b. Linguistic (explaining activities)
  - c. Conative (what firm actually does)
- CSR often a byproduct of sensible business decision (e.g., teaching math).

# Stockholder versus Stakeholder Viewpoints

- Stockholder viewpoint—business firms are responsible only to owners and stockholders.
- Stakeholder viewpoint—firms are responsible for quality of life of many groups affected by their actions.
- Stakeholders can be partners in success of organization rather than adversaries.

# Corporate Social Performance

- Extent to which firm responds to demands of its stakeholders for behaving in socially responsible manner.
- To measure social performance, analyze annual report in search of relevant statistical information (e.g., donations).
- Also measure by observing how company responds to various social issues.

# Corporate Social Responsibility Initiatives

1. Philanthropy (some firms seek maximum return in terms of social impact)
2. Work-life programs (facilitate balancing demands of work and personal life)
3. Community redevelopment projects (rebuild distressed communities; offer job training to residents)
4. Acceptance of whistle blowers (those who disclose organizational wrongdoing)

## *Corporate Social Responsibility Initiatives, continued*

5. Compassionate downsizing
  - a. Downsizing is slimming down operations to boost profits or decrease expenses.
  - b. Can lead to substantial collateral damage, including hits to charity.
  - c. Compassion includes questioning whether to downsize, re-deploying workers, financial and emotional support to downsized workers.



# Seven Illustrative Approaches to Environmental Protection

1. Commit to low hazardous emissions.
2. Develop a green supply chain.
3. Make sustainability and eco-friendly policies part of your business plan.
4. Implement a four-day workweek.
5. Manufacture and sell products with recycled materials.
6. Invest heavily in recycling.
7. Plant a roof-top garden on workplace.

# Creating an Ethical and Socially Responsible Workplace

- Formal mechanisms for monitoring ethics (ethics programs such as ethics committee, channels for raising questions and voicing concerns).
- Written organizational codes of conduct (include general and specific suggestions).
- Widespread communication about ethics and social responsibility (executive commentary, small group discussions).

## *Creating an Ethical and Socially Responsible Workplace, continued*

- Leadership by example and ethical role models (executives behave ethically, and other managers also serve as models).
- Encouragement of confrontation about ethical deviations (every employee confronts anybody behaving unethically).
- Training programs in ethics and social responsibility (such as executive messages, classes, e-learning, videos).

# Benefits Derived from Ethics and Social Responsibility

- Socially responsible behavior is usually cost effective.
- More profitable firms can better afford to invest in socially responsible initiatives, which in turn lead to more profits (the virtuous cycle).
- People expect managers to use resources in a way to protect the environment.

## *Benefits Derived from Ethics and Social Responsibility, continued*

- Being green can enhance organizational efficiency through recycling and reducing waste.
- Reducing and offsetting carbon emissions can save a company considerable money.
- Being ethical can help avoid costs of large fines for being unethical.
- Socially responsible acts can often attract and retain socially responsible employees.