# Chapter 3
## ETHICS AND SOCIAL RESPONSIBILITY [PowerPoint Slide 1]

The purpose of this chapter is to familiarize the student with key issues in ethics and social responsibility. To accomplish this purpose we describe topics such as the philosophical principles behind business ethics and a guide to ethical decision making. The chapter explains social responsibility from such perspectives as the stakeholder viewpoint and social responsibility initiatives. Finally, we look at the payout from being ethical and socially responsible.

## Learning Objectives

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1. Identify the philosophical principles behind business ethics.
2. Explain how values relate to ethics.
3. Identify factors contributing to lax ethics, and common ethical temptations and violations.
4. Apply a guide to ethical decision making.
5. Describe the stakeholder viewpoint of social responsibility, and corporate social performance.
6. Present an overview of social-responsibility initiatives.
7. Describe social responsibility initiatives aimed specifically at building a sustainable environment.

## Chapter Outline and Lecture Notes

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Knowing about business ethics and social responsibility should help the student achieve good performance in these two important aspects of business life.

I. **BUSINESS ETHICS** [PowerPoint Slide 2]
   **Ethics** is the study of moral obligation, or separating right from wrong. Also, ethics can be regarded as the vehicle that converts values into action. Unethical acts can be legal or illegal. Customers and suppliers prefer to deal with ethical companies. **Moral intensity** is the magnitude of an unethical act. People are often unethical about small matters, such a making a photocopy for personal use.

   A. **Philosophical Principles Underlying Business Ethics** [PowerPoint Slide 3]
      When attempting to decide what is right and wrong, managerial workers can focus on (1) consequences, (2) duties, obligations, and principles, or (3) integrity.
      1. *Focus on Consequences and Pragmatism.* According to utilitarianism, if nobody gets hurt, the decision is ethical. Closely related is *pragmatism*, the belief that there are no absolute principles or standards, no objective truth, and no objective reality. "Truth" is whatever works, or helps you attain the goals you want.
      2. *Focus on the Rights of Individuals (Deontology).* According to deontological theory, people must examine their duties when making a decision. The

deontological approach is based on universal principles such as honesty, fairness, justice, and respect for persons and property. Rights, such as the rights to privacy and safety, are also important.

3. *Focus on Integrity (Virtue Ethics).* If the person in question has good character, and genuine motivation and intentions, he or she is behaving ethically. The decision maker's environment helps define integrity. The virtue ethics of managers and professionals who belong to professional societies can be readily judged.  All three philosophical approaches might be necessary when facing a complex ethical decision.

When faced with a complex ethical decision, you are best advised to incorporate all three philosophical approaches. You might think through the consequences of a decision, along with an analysis of duties, rights, principles, and intentions.

B. **Values and Ethics** **[PowerPoint Slide 4]**
Values are clear statements of what is critically important. Ethics become the vehicle for converting values into action, or doing the right thing. A firm's moral standards and values help guide ethics in decision making. A person's values also influence which kind of behaviors he or she believes are ethical. **Ethically centered management** emphasizes that the high quality of an end product takes precedence over its scheduled completion. A product or service would therefore not be delivered until its bugs were eliminated. The concept of ethically-centered management is helpful in understanding what when wrong in the many product recalls. The product developers and manufacturers might have been given such a tight deadline for product delivery that a thorough, filed-tested inspection was not possible.

C. **Sources of Unethical Decisions and Behavior** **[PowerPoint Slide 5]**
Ethical problems remain a major concern in the workplace, such as 19% of employees having witnessed lying to employees, and 9% having witnessed stealing.
1. *Individual Characteristics.* Self-interest can influence ethics, often taking the form of greed and gluttony, or the desire to maximize self-gain at the expense of others. People might also have unconscious biases that lead them to behave in unjust ways toward others. A pervasive reason for unethical behavior is *rationalization*, or making up a good excuse for poor ethics. For example, a person might reason that other people are also cheating on expense accounts. Job dissatisfaction can also contribute to unethical behavior. **[PowerPoint Slide 5]**
2. *The Nature of the Moral Issue.* The moral intensity of the issue is a driver of unethical behavior, with many people willing to behave unethically when the issue does not appear serious. Another issue-related driver of unethical behavior is *moral laxity*, a slippage in moral behavior because other issues seem more important at the time  **[PowerPoint Slide 6]**
3. *The Ethical Climate in the Organization*. Another major contributor to unethical behavior is *an organizational climate that condones such behavior.* The financial scandals at Enron Corporation illustrate how a culture of lawless behavior and high risk taking directly feeds unethical, and even criminal, behavior. Unethical behavior is often triggered by *pressure from higher management to achieve goals. Too much emphasis on meeting financial targets* can push workers toward meeting the targets in questionable ways. **[PowerPoint Slide 7]**

An unethical decision or behavior can sometimes stem from a combination of individual, issue-related, and organizational factors. The analysis of the Toyota recalls is relevant here, as described in the text.

**D. Ethical Temptations and Violations [PowerPoint Slides 8 and 9]**
A list of commonly found ethical temptations and violations, including criminal acts, follows:
1. Stealing from employers and customers.
2. Illegally copying software.
3. Treating people unfairly (discrimination and prejudice).
4. Sexual harassment.
5. Conflict of interest. A **conflict of interest** occurs when judgment or objectivity is compromised.
6. Accepting kickbacks and bribes for doing business with another company.
7. Divulging confidential information (violating trust).
8. Misuse of corporate resources.
9. Extracting extraordinary compensation from the organization.
10. Corporate espionage.
11. Poor cyberethics.

**E. Business Scandals as Ethical Violations [PowerPoint Slide 10]**
The best-known scandals are associated with infamous executives.  Yet scandals are also perpetuated by hundreds of players including Internet fraud  including identity theft and work-at-home scams. Among the financial and personal consequences of major financial scandals have been mammoth job losses, the wiping out of pension funds, huge investment losses by individuals, and the bankruptcy of vendors who supplied the companies that went bankrupt.

Four well-publicized scandals are (a) click fraud (clicking on Internet ads solely to generate revenue), (b) Enron Corporation, (c) the preparation of fraudulent financial documents to deceive investors, (d) and backdating stock options at Silicon Valley companies. People commit these outrageous schemes for reasons such as greed and gluttony, and the fact that emotion can cloud anybody's judgment.

**F. A Guide to Ethical Decision Making [PowerPoint Slide 11]**
Ethical decision making can be improved by running the contemplated decision through an ethics test, such as that used at the Center for Business Ethics:
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?

Another type of decision that often requires an ethical test is choosing between two rights (rather than right versus wrong). An example would be laying off a poorly-performing worker who is blind. Students might be challenged to find good examples of choosing between two rights.

**II.    CORPORATE SOCIAL RESPONSIBILITY [PowerPoint Slide 12]**
Many people argue that organizations have an obligation to respond to the needs of groups in society other than owners and stockholders. **Corporate social responsibility** is the idea that firms have an obligation to society beyond their economic obligations to owners or stockholder  and beyond those prescribed by law or contract. One analysis suggests that corporate social responsibility has three components: *Cognitive* implies thinking about the organization's relationship with its parties at interest. *Linguistic* involves ways of explaining the organization's reasons for engaging in certain activities. *Conative* involves what the firm actually does, along with the commitment and consistency it shows in being socially responsible.

Many socially responsible actions are the byproducts of sensible business decisions. For instance, it is both socially responsible and profitable for a company to improve the language and math skills of entry-level workers, and invest in local schooling. A practical problem in practicing corporate social responsibility is that not all interested parties agree on what constitutes responsible behavior.

**A.  Stockholder versus Stakeholder Viewpoints [PowerPoint Slide 13]**
The traditional perspective is the **stockholder viewpoint**—that business organizations are responsible only to their owners and stockholders. The **stakeholder viewpoint** of social responsibility contends that organizations must hold themselves responsible for the quality of life of the many groups affected by the organization's actions. Many organizations regard their various stakeholders as partners in achieving success, rather than as adversaries. . Stakeholders differ in their power, legitimacy, and urgency (such as stakeholders chaining themselves to a factory fence).

**B.  Corporate Social Performance [PowerPoint Slide 14]**
**Corporate social performance** is the extent to which a firm responds to the demands of its stakeholders for behaving in a socially responsible manner. One way to measure social performance is to analyze the company's annual report in search of relevant statistical information. Another approach to measuring corporate social performance is to observe how a company responds to social issues by examining programs in more detail.

**C.  Corporate Social Responsibility Initiatives [PowerPoint Slide 15]**
Some organizations are being socially responsible by creating more opportunities for diverse groups, as described in Chapter 2. Here we describe other social responsibility initiatives.
1. *Philanthropy*. A standard approach to social responsibility is to donate money to charity and various other causes. The new breed of philanthropist studies each charitable cause as he or she would a potential business investment, seeking maximum return in terms of social impact.
2. *Work-Life Programs*  A major social responsibility initiative is for organizations to establish programs that facilitate employees balancing the demands of work and personal life. The intent is to help employees lead a more balanced life, and be more satisfied and productive on the job.
3. *Community-Redevelopment Projects*  Some business firms invest resources in helping rebuild distressed communities. Investment can also mean offering job training for residents of the distressed community.

4. *Acceptance of Whistle Blowers*  A **whistle blower** is an employee who discloses organizational wrongdoing to parties who can take action. More than half the time, whistle blowers are ignored. The manager needs the insight to sort out the difference between a troublemaker and a true whistle blower.

5. *Compassionate Downsizing.*   **Downsizing** is the slimming down of operations to focus resources and boost profits or decrease expenses. An example of the ill effects of downsizing has been the substantial collateral damage from the cutbacks in the Michigan area automotive industry. Even charitable organizations suffer. Compassion includes  pondering whether to downsize at all, and re-deploying workers. Providing  financial and emotional support to the downsized worker is also important. **[PowerPoint Slide 16]**

**D. Environmental Protection [PowerPoint Slide 17]**
A major corporate thrust toward ethical and socially responsible behavior is for business firms, as well as for not-for-profit organizations to be *green*, or make a deliberate attempt to create a sustainable environment. Green is an approach to defining and creating processes that are (1) environmentally friendly, (2) economically viable, and (3) pragmatic in the long term.

People often disagree vehemently about whether global warming exists, but almost nobody disagrees that a clean, safe environment is desirable. Here we highlight seven illustrative approaches to environmental protection.

1. *Commit to low carbon dioxide emissions, as well as other hazardous emissions.*
2. *Develop a green supply chain.*
3. *Make sustainability and eco-friendly policies part of your business plan.* (An advanced approach here is to create the executive position of chief sustainability officer.)
4. *Implement a four-day workweek.* (Less gasoline used, less carbon dioxide emissions if people don't drive more on weekday off.)
5. *Manufacture and sell products with recycled materials*.
6. *Invest heavily in recycling.*
7. *Plant a rooftop garden on your office building or factory*.

**III.  CREATING AN ETHICAL AND SOCIALLY RESPONSIBLE WORKPLACE [PowerPoint Slide 18]**
Managers can develop strategies and programs to enhance ethical and socially responsible attitudes.

**A. Formal Mechanisms for Monitoring Ethics [PowerPoint Slide 18]**
 The majority of companies with 500 or more employees have ethics programs of various types. Large organizations frequently set up ethics committees to help ensure ethical and socially responsible behavior. The Lockheed Martin Corporation's ethics and compliance program has received much favorable publicity. It includes multiple channels for raising questions and voicing concerns, such as an ethics hotline.

**B. Written Organizational Codes of Conduct [Power Point Slide 18]**

About 75 percent of large organizations use written codes of conduct to serve as guidelines for ethical and socially responsible behavior. Some aspects of these codes are general, such as requiring people to conduct themselves with integrity and candor. Other aspects are specific, such as rules on accepting gifts from vendors.

**C. Widespread Communication about Ethics and Social Responsibility [PowerPoint Slide 18]**
Extensive communication about the topic reinforces ethical and socially responsible behavior. Top management can speak widely about the competitive advantage of being ethical and socially responsible. Discussing ethics and social responsibility in small groups is helpful.

**D. Leadership by Example and Ethical Role Models [PowerPoint Slide 19]**
A high-powered approach to enhancing ethics and social responsibility is for members of top management to behave in such a manner themselves. Leading by example is particularly useful in encouraging ethical behavior because it provides useful role models. Employees are influenced by the people they work with every day. In contrast, top executives are distant figures who the worker rarely observes directly.

**E. Encouragement of Confrontation about Ethical Deviations [PowerPoint Slide 19]**
Unethical behavior may be minimized if every employee confronts anybody seen behaving unethically. This approach encourages workers to ask about the ethical implications made by others in the firm.

**F. Training Programs in Ethics and Social Responsibility [PowerPoint Slide 19]**
Forms of training include messages about ethics from executives, classes on ethics at colleges, and exercises in ethics. A recent approach is to conduct ethics training through e-training and videos about ethics, followed by small-group discussion with a manager often leading the discussion group.

**G. Benefits Derived from Ethics and Social Responsibility [PowerPoint Slides 20, 21]**
Despite potential costs from being ethical and socially responsible, socially responsible behavior appears to be cost-effective. Research shows that more profitable firms can better afford to invest in social responsibility initiatives, and these initiatives in turn lead to more profits (the virtuous cycle).

The overall argument for green management is that it matters because people expect managers to use resources prudently and responsibly to protect the environment. The experience of London-based Radio Taxi Cabs illustrates how reducing and offsetting carbon emissions can save a company considerable money. Being green can enhance organizational efficiency through such means and recycling and reducing waste. Being ethical also helps avoid the costs of paying huge fines for being unethical. Socially responsible acts can often attract and retain socially responsible employees.