Chapter 2
Ethics and Social Responsibility: Doing the Right Thing
Learning Objectives (1 of 2)

2.1 Define business ethics and describe the three levels of ethical standards.

2.2 Determine who is responsible for ethical behavior and why ethical lapses occur.

2.3 Explain how to establish and maintain high ethical standards.
Learning Objectives (2 of 2)

2.4 Explain the difference between social entrepreneurs and traditional entrepreneurs.

2.5 Define social responsibility.

2.6 Understand the nature of business’s responsibility to the environment.

2.7 Describe business’s responsibility to employees.

2.8 Discuss business’s responsibility to customers.

2.9 Describe business’s responsibility to investors.

2.10 Describe business’s responsibility to the community.
Ethical Behavior

• Ethical behavior: doing what is “right” as opposed to what is “wrong.”
  – Reflects entrepreneur’s personal values and beliefs

• It is important to consider the perspectives of different stakeholders: the various groups and individuals who affect and are affected by a business.
Figure 2.1 Key Stakeholders

External Stakeholders

- Customers
- Special Interest Groups
- Unions

Internal Stakeholders

- Family
- Employees
- External Investors
- Company Founders
- Management
- Creditors

- Government
- Community and General Public
- Suppliers
Ethics and Social Responsibility

• **Ethics**: a branch of philosophy that studies and creates theories about the basic nature of right and wrong, duty, obligation, and virtue.

• **Social responsibility**: how an organization responds to the needs of the many elements in society.
Business Ethics

- **Business ethics**: the fundamental moral values and behavioral standards that form the foundation for the people of an organization as they make decisions and interact with stakeholders.
Figure 2.2 Three Levels of Ethical Standards

- Morality
- Policies and Procedures
- The Law
### Table 2.1 Approaches to Business Ethics

<table>
<thead>
<tr>
<th>Organizational Characteristics</th>
<th>Immoral Management</th>
<th>Amoral Management</th>
<th>Moral Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical norms</td>
<td>Management decisions, actions, and behavior imply a positive and active opposition to what is moral (ethical). Decisions are discordant with accepted ethical principles. An active negation of what is moral is implicit.</td>
<td>Management is neither moral nor immoral; decisions are not based on moral judgments. Management activity is not related to any moral code. A lack of ethical perception and moral awareness may be implicit.</td>
<td>Management activity conforms to a standard of ethical, or right, behavior. Management activity conforms to accepted professional standards of conduct. Ethical leadership is commonplace.</td>
</tr>
<tr>
<td>Motives</td>
<td>Selfish. Management cares only about its or its company’s gains.</td>
<td>Well-intentioned but selfish in the sense that impact on others is not considered.</td>
<td>Good. Management wants to succeed but only within the confines of sound ethical precepts such as fairness, justice, and due process.</td>
</tr>
</tbody>
</table>
## Moral Management (2 of 2)

### [Table 2.1 continued]

<table>
<thead>
<tr>
<th>Organizational Characteristics</th>
<th>Immoral Management</th>
<th>Amoral Management</th>
<th>Moral Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals</td>
<td>Profitability and organizational success at any price.</td>
<td>Profitability. Other goals are not considered.</td>
<td>Profitability within the confines of legal obedience and ethical standards.</td>
</tr>
<tr>
<td>Orientation toward law</td>
<td>Legal standards are barriers that management must overcome to accomplish what it wants.</td>
<td>Law is the ethical guide, preferably the letter of the law. The central question is, what we can do legally?</td>
<td>Obedience toward letter and spirit of the law. Law is a minimal ethical behavior. Prefer to operate well above what law mandates.</td>
</tr>
<tr>
<td>Strategy</td>
<td>Exploit opportunities for corporate gain. Cut corners when it appears useful.</td>
<td>Give managers free rein. Personal ethics may apply but only if managers choose. Respond to legal mandates if caught and required to do so.</td>
<td>Live by sound ethical standards. Assume leadership position when ethical dilemmas arise. Enlightened self-interest.</td>
</tr>
</tbody>
</table>
Benefits of Moral Management

1. Companies avoid the damaging fallout from unethical behavior on their reputation.

2. Dealing with stakeholders is much easier if a company has a solid ethical foundation on which to build.

3. It is easier to attract and retain quality workers.

4. It has a positive impact on a company’s bottom line.

5. It has an impact on a company’s ability to provide value for its customers.
Why Be Ethical? (1 of 2)

Top Five Reasons to Run a Business Ethically

1. Protect brand and company reputation
2. It is the right thing to do
3. Maintain customers’ trust and loyalty
4. Maintain investors’ confidence
5. Earn public acceptance and recognition
Why Be Ethical? (2 of 2)

Top Five Factors That Drive Business Ethics

1. Corporate scandals
2. Marketplace competition
3. Demands by investors
4. Pressure from customers
5. Globalization
Establishing an Ethical Framework (1 of 2)

Step 1: Identify the personal moral and ethical principles that shape all business decisions.

Step 2: Recognize the ethical dimensions involved in the dilemma or decision.

Step 3: Identify the key stakeholders involved and determine how the decision will affect them.

- **Triple bottom line (3BL)**: measuring business performance using profitability, commitment to ethics and social responsibility, and its impact on the environment (“profit, people, and planet”).
Establishing an Ethical Framework (2 of 2)

Step 4: Generate alternative choices and distinguish between ethical and unethical responses.

Step 5: Choose the “best” ethical response and implement it.
Why Ethical Lapses Occur

Figure 2.3 Causes Of Ethical Lapses

Source: KPMG Integrity Survey 2013, p. 12.
Causes of Ethical Lapses

• An unethical employee
• An unethical organizational culture
• Moral blindness
• Competitive pressures
• Opportunity pressures
• Globalization of business
Features of Ethical Cultures (1 of 2)

1. Leaders support and model ethical behavior.
2. Consistent communications come from all company leaders.
3. Ethics is integrated into the organization’s goals, business processes, and strategies.
4. Ethics is part of the performance management system.
5. Ethics is part of the company’s selection criteria and selection process.
Features of Ethical Cultures  (2 of 2)

6. The needs of the various stakeholder are balanced when making decisions.

7. A strong set of core values supports the vision and mission of the company.

8. The company maintains a long-term perspective on all decisions.
Establishing and Maintaining Ethical Standards

• Ethical tests for judging behavior:
  – The utilitarian principle
  – Kant’s categorical imperative
  – The professional ethic
  – The Golden Rule
  – The television test
  – The family test
Principles to Guide Ethical Behavior

• Honesty
• Integrity
• Promise-keeping
• Fidelity
• Fairness
• Caring for others
• Respect for others
• Responsible citizenship
• Pursuit of excellence
• Accountability
Maintaining Ethical Standards (1 of 3)

• Set the tone.

• Create a company credo:
  – A statement that defines the values underlying the entire company and its ethical responsibilities to its stakeholders.

• Establish high standards of behavior.

• Involve employees in establishing ethical standards.

• Create a culture that emphasizes two-way communication.
Maintaining Ethical Standards (2 of 3)

• Eliminate “undiscussables.”

• Develop a **code of ethics**:  
  – A written statement of the standards of behavior and ethical principles a company expects from its employees.

• Enforce the code of ethics through policies.

• Recruit and promote ethical employees.  
  – Ethical commitment.  
  – Ethical consciousness.  
  – Ethical competency.
Maintaining Ethical Standards (3 of 3)

• Conduct ethics training.
• Reward ethical conduct.
• Separate related job duties.
• Perform periodic ethical audits.
Social Entrepreneurship

• Social entrepreneurs:
  – Seek solutions for social problems that are met by neither the market nor the government.
  – Focus on creating social benefit rather than commercial success.
  – Tackle social problems by taking full advantage of natural market forces.
Social Responsibility

• Companies must go beyond “doing well” – simply earning a profit – to “doing good” – living up to their social responsibility.

• Surveys show:
  – 55% of small businesses’ mission statements include references to achieving social goals.
  – 90% of small business owners give to charity and 70% donate both money and time to local causes.
Why Be Socially Responsible?

• Research shows:
  – 75% of consumers say social responsibility is important in their purchasing decisions.
  – There is a positive correlation between ethical, socially responsible behavior and profitability.

• But it can be difficult to define just what socially responsible behavior is!
Being Socially Responsible

• Encourage recycling.
• Support local fundraisers.
• Join in community service.
• Reduce energy usage.
• Create a grant program.
• Support local causes.
• Partner with local school.
Business’s Responsibility to the Environment

• Socially responsible business owners focus on the three Rs:

1. **Reduce** the amount of energy and materials used in your company.

2. **Reuse** whatever you can.

3. **Recycle** the materials you must dispose of.
Business’s Responsibility to Employees

• Recognize the value of employees:
  – Listen to them and respect their opinions.
  – Ask for their input and involve them in the decision-making process.
  – Provide regular feedback – positive and negative.
  – Tell them the truth – always.
  – Let them know exactly what’s expected of them.
  – Reward them for performing their jobs well.
  – Trust them – create an environment of respect and teamwork.
Cultural Diversity in the Workplace

Figure 2.4 Diversity Index by County

Composition of the U.S. Workforce in 2020

Figure 2.5 Projected Composition of the U.S. Workforce in 2020

Managing Diversity

• Use a “SPLENDID” approach:
  – Study
  – Plan
  – Lead
  – Encourage
  – Notice
  – Discussion
  – Inclusion
  – Dedication
Managing a Culturally Diverse Workforce

• Business owners need to:
  – Assess diversity needs.
  – Learn to recognize and correct their own biases and stereotypes.
  – Avoid making invalid assumptions.
  – Push for diversity in their management teams.
  – Concentrate on communication.
  – Make diversity a core value in the organization.
  – Continue to adjust the company to their workers.
Drug Testing

• An effective, proactive drug program should include:
  – A written substance abuse policy.
  – Training for supervisors to detect substance-abusing workers.
  – An employee education program.
  – A drug-testing program, when necessary.
  – An employee assistance program (EAP):
    ▪ A company-provided benefit designed to help reduce workplace problems such as alcoholism, drug addiction, a gambling habit, and other conflicts and to deal with them when they arise.
Sexual Harassment

• **Sexual harassment**: any unwelcome sexual advance, request for sexual favors, and other verbal or physical sexual conduct made explicitly or implicitly as a condition of employment.

• Small businesses are especially vulnerable because they lack the policies, procedures, and training to prevent it.
What Is Sexual Harassment?

• Behaviors that can result in sexual harassment charges:
  – Quid pro quo harassment
  – Hostile environment
  – Harassment by nonemployees
Preventing Sexual Harassment

• Education:
  – Training programs can raise awareness of what constitutes harassment.

• Policy:
  – Implement a meaningful and enforceable policy against harassment.

• Procedure:
  – Provide a channel for employees to express their complaints.
Privacy

• Business owners should:
  – Establish a clear policy for monitoring employees’ communications.
  – Create guidelines for the proper use of the company’s communication technology and communicate them to everyone.
  – Monitor in moderation.
Business’s Responsibility to Customers

• Businesses should build long-term relationships with their customers.

• Abide by the Consumer Bill of Rights.
  – Right to safety.
  – Right to know.
  – Right to be heard.
  – Right to education.
  – Right to choice.
Business’s Responsibility to Investors

• Businesses have a responsibility to:
  – Provide investors with an attractive return on their investment.
  – Meet ethical and social goals.
  – Report their financial performance in an accurate and timely fashion to their investors.
Business’s Responsibility to the Community

• Businesses have a responsibility to:
  – Provide jobs and create wealth.
  – Contribute to the community in other ways.
    ▪ Act as volunteers for community groups.
    ▪ Participate in projects to help the elderly or poor.
    ▪ Adopt a highway to promote a clean community.
    ▪ Volunteer in school programs.
Conclusion

• Businesses must do more than earn profit; they must act ethically and in a socially responsible way.
  – But, there is no universal definition of ethical behavior.

• Business owners need to commit to following the highest ethical standards if they expect their employees to do so.
Copyright

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.