# Chapter Readings, Lecture Notes & Videos

Read Ch 2- Ethics and Social Responsibility

****Chapter 2. Ethics and Social Responsibility: Doing the right thing****

****Part 1: Learning Objectives****

1. Define business ethics and describe the three levels of ethical standards.
2. Determine who is responsible for ethical behavior and why ethical lapses occur.
3. Explain how to establish and maintain high ethical standards
4. Explain the difference between social entrepreneurs and traditional entrepreneurs.
5. Define social responsibility.
6. Understand the nature of business’s responsibility to the environment.
7. Describe business’s responsibility to employees.
8. Explain business’s responsibility to customers.
9. Discuss business’s responsibility to investors.
10. Describe business’s responsibility to the community.

****Part 2: Class Instruction****

****Introduction****

Business ethics involves the moral values and behavioral standards that business people draw on as they make decisions and solve problems. The ability to determine the values and ethics that will shape how business will be conducted is a major motivation to launching a venture.  The values and morals that entrepreneurs drawn on to guide their ethical behaviors can come from a variety of sources.  Ethical dilemmas may be apparent; however, more often ethical issues are less obvious and no clear cut right or wrong answers exist.  There may be conflicting interests among the company’s stakeholders.  ***Stakeholders*** include the various groups and individuals who affect and are affected by a business.  Refer to Figure 2.1, Key Stakeholders.  Ethical leaders approach their responsibilities with added dimensions of thought and action.

***Ethics*** refers to a branch of philosophy that studies and creates theories about the basic nature of right and wrong, duty, obligation, and virtue.  A business operates as an institution in our complex society; therefore, entrepreneurs are expected to behave in ways that are compatible with the value system of society.  ***Social responsibility*** refers to how an organization responds to the needs of the many elements in society.

****An Ethical Perspective                                        LO 1****

***Business ethics*** consist of 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.  Maintaining an ethical perspective is essential to creating and protecting a company’s reputation, but it is not easy.  While building an ethical reputation takes a long time, destroying that reputation can happen quickly.

****Three Levels of Ethical Standards**** (Refer to Figure 2.2, Three Levels of Ethical Standards)

1. The law – defines what is permissible and what is not permissible.
2. Organizational policies and procedures – specific guidelines for people as they make daily decisions.
3. The moral stance – use when employees encounter a situation that is not governed by the law or organizational policies and procedures.

****Moral Management.**** There are three ethical styles of management, including immoral management, amoral management, and moral management.  (Refer to Table 2.1, Approaches to Business Ethics)

* Immoral Management. Managers are motivated by selfish reasons, primarily greed.
* Amoral Management. Managers are motivated to earn a profit, and neglect to consider the impact their decisions have on others.
* Moral Management. Managers strive for success but only within the boundaries of legal and ethical standards.

****The Benefits of Moral Management.**** (Refer to Table 2.2, Reasons to Run a Business Ethically and the Factors That Drive Business Ethics)

* Avoid damage from unethical behavior on their reputation.
* Dealing with stakeholders is easier when a firm has a solid ethical foundation.
* It is easier to attract and retain quality employees.
* Ethical behavior has a positive impact on a firm’s bottom line.
* Customers prefer to buy from an ethical company.

****Establishing an Ethical Framework****

*(Refer to Table 2.3, Questions to Help Identify the Ethical Dimension of a Situation)*

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.  The ***triple bottom line*** (3BL) involves measuring business performance using profitability, its commitment to ethics and social responsibility, and its impact on the environment (profit, people, and planet).

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****

*(Refer to Figure 2.3, Causes of Ethical Lapses)*

The most common causes of ethical lapses include:

* Pressure to do whatever it takes to meet business targets.
* Company’s code of conduct not taken seriously.
* Will be rewarded for results and not the means used to achieve them.
* Unfamiliar with ethical standards that apply to the job.
* Fear of losing job if business targets not met.
* Believe policies are easy to override.
* Lake resources to get the job done without taking shortcuts.
* Seeking to bend rules for personal gain.

****Responsibility for Ethical Decisions               LO 2****

****An Unethical Organizational Culture.****The culture of the entire organization rewards employees for unethical behavior.

****Moral Blindness.****Sometimes ethical people make unethical blunders because they are blind to the implications of their conduct.

****Competitive Pressures.****  Managers and employees are under such pressure to produce that they may sacrifice their ethical standards to reduce the fear of failure or the fear of losing their jobs.

****Opportunity Pressures.****When the opportunity to get ahead by taking some unethical action presents itself, some people cannot resist the temptation.

****Globalization of Business.****Globalization of business has intertwined what once were distinct cultures; this cultural cross-pollination has brought about many positive aspects, but is has created problems as well. (Refer to Table 2.4, Ethics Research Reveals Features of Ethical Cultures)

****Establishing and Maintaining Ethical Standards    LO 3****

****Establishing Ethical Standards.****  Although small businesses may not have formal ethics programs, entrepreneurs can encourage employees to become familiar with the following ethical tests for judging behavior:

* Utilitarian principle: choose the option that offers the greatest good for the greatest number of people.
* Kant’s categorical imperative: act in such a way that the action taken under the circumstances could be a universal law or rule of behavior.
* Professional ethic: take only those actions that a disinterested panel of professional colleagues would view as proper.
* Golden rule: treat other people the way you would like them to treat you.
* Television test: would you feel comfortable explaining your actions to a national television audience?
* Family test: would you be comfortable explaining to your children, your spouse, and your parents why you took this action?

(Refer to Table 2.5, Ten Ethical Principles to Guide Behavior)

****Maintaining Ethical Standards.****Implementing and maintaining ethical standards is the real challenge.

* Set the tone. Ethics starts at the top of the organization by the leader.
* Create a ***company credo***, which is 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.
* Develop a ***code of ethics***, which is 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.
* Conduct ethics training.
* Reward ethical conduct.
* Separate related job duties.
* Perform periodic ethical audits

****Social Entrepreneurship                                                 LO 4****

Social entrepreneurship can be characterized by the following:

1. Social entrepreneurs seek solutions for social problems that are met by neither the market nor the government.
2. Creating social benefit rather than commercial success motivates social entrepreneurs.
3. Social entrepreneurs tackle social problems by taking full advantage of natural market forces.

****Social Responsibility                                           LO 5****

There is an expectation that business will produce benefits not only for themselves but also for society as a whole.  Companies must go beyond “doing well” – simply earning a profit – to “doing good” – living up to their social responsibility.

Companies that are most successful in meeting their social responsibility select causes that are consistent with their core values and their employees’ interests and skill sets.  Whether a company supports a social or an environmental cause has a significant effect on shoppers’ behavior.

Other studies show a connection between social responsibility and profitability.  One study concluded that a positive correlation existed between a company’s profitability and its reputation for ethical, socially responsible behavior.  (Refer to Table 2.6, Simple Ways for a Small Business to Be Socially Responsible)

Consider using You Be the Consultant: “Funding Social Ventures Through Franchise Businesses” at this point.

****Business’s Responsibility to the Environment   LO 6****

Companies have discovered that sound environmental practices make for good business.  Examples include lowering operating costs, and producing environmentally safe products that attract environmentally conscious customers which give a company a competitive edge in the marketplace.  Socially responsible business owners focus on the three Rs:

* Reduce the amount of energy and materials used.
* Reuse whatever you can.
* Recycle the materials that you must dispose of.

Progressive small firms are designed for “clean” manufacturing systems to avoid waste and pollution, and using resources efficiently.

****Business’s Responsibility to Employees      LO 7****

Entrepreneurs who understand the value of their employees follow a few simple procedures by doing the following:

* Listening to employees and respecting their opinions
* Asking for their input and involving them in the decision-making process
* Providing regular feedback – positive and negative – to employees
* Telling the truth - always
* Letting them know exactly what’s expected of them
* Rewarding employees for performing their jobs well
* Trusting them; creating an environment of respect and teamwork

****Cultural Diversity in the Workplace.  (****Refer to Figures 2.4, Diversity Index by County, and Figure 2.5, Projected Composition of the U.S. Workforce in 2020)  Cultural diversity provides an incredibly rich blend of ideas, perspectives, skills, talents, ideas, and creativity.  However, managing a culturally diverse workforce presents a real challenge for employers.  The EEOC suggests following a “SPLENDID” approach to diversity:

* Study issues related to diversity, including relevant laws.
* Plan
* Lead
* Encourage
* Notice
* Discussion
* Inclusion
* Dedication

Managing a culturally diverse workforce successfully requires a business owner to do the following:

* Assess your company’s diversity needs
* Learn to recognize and correct your own biases and stereotypes
* Avoid making invalid assumptions
* Push for diversity in your management team
* Concentrate on communication
* Make diversity a core value in the organization
* Continue to adjust your company to your workers

****Drug Testing.****Drug and alcohol abuse by employees results in reduced productivity, increased medical costs, higher accident rates, and higher levels of absenteeism.  An effective, proactive drug program should include the following five elements:

1. Written substance abuse policy.
2. Training for supervisors to detect substance-abusing workers.
3. An employee education program.
4. A drug testing program.
5. An ***employee assistance program (EAP)***, which is 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*** is any unwelcome sexual advance, request for sexual favors, and other verbal or physical sexual conduct made explicitly or implicitly as a condition of employment.  Types of behavior that may result in sexual harassment charges include:

* Quid Pro Quo Harassment occurs when a superior conditions the granting of a benefit such as a promotion or raise on the receipt of sexual favors from a subordinate.
* Hostile Environment refers to behavior that creates an abusive, intimidating, offensive, or hostile work environment. Examples include: displaying sexually suggestive pictures or posters, engaging in sexually related humor within hearing of someone who takes offense, talking about sexual matters where others can hear, making sexual comments to other employees, dispensing assignments based on sexual orientation, and repeated asking a coworker for a date after having been refused multiple times.
* Harassment by Nonemployees occurs when third parties (such as customers, sales representatives, and others) engage in sexual harassment when the employer has the ability to stop the improper behavior.

A company’s best weapons against sexual harassment are education, policy, and procedures.

* Education: training programs designed to raise employees’ awareness.
* Policy: enact policies that management can enforce, including: clearly define what behaviors constitute harassment, state that harassment will not be tolerated, identify supervisors and employee responsibilities, define the sanctions and penalties, spell out steps for reporting an incident.
* Procedure: when a complaint arises, managers should do the following:
  + Listen to the complaint and take notes.
  + Investigate promptly. (Refer to Table 2.7, What to Do When an Employee Files a Sexual Harassment Complaint)
  + Interview the accused party and witnesses privately.
  + Keep findings confidential.
  + Decide what action to take relying on policies.
  + Inform complaining person and alleged harasser of action.
  + Document entire investigation.

The ‘Hands On… How To’ feature includes a test on sexual harassment for both employees and managers.

* Modern technology has given business owners the ability to monitor workers’ performance, but there is a line between monitoring productivity and invasion of privacy.  To avoid ethical and legal problems, business owners should follow these guidelines:
  + 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.

Consider using You Be the Consultant: “Think Before You Tweet” at this point.

****Business’s Responsibility to Customers                   LO 8****

The Consumer Bill of Rights gives consumers the following rights:

****Right to Safety.****The greatest breach of trust occurs when businesses produce product that, when properly used, injure customers.

****Right to Know.****Consumers have the right to honest communication about the products and services they buy and the companies that sell them.

****Right to Be Heard****

The right to be heard suggests that the channels of communication between companies and their customers run in both directions.  Socially responsible businesses provide customers with a mechanism for resolving complaints about products and service.

****Right to Education.****  This refers to educational material about their products and services and how to use them properly.

****Right to Choice.****  This refers to socially responsible companies that do not restrict competition, and willingness to abide by U.S. antitrust policy.

****Business’s Responsibility to Investors                     LO 9****

Although earning a profit is a company’s first responsibility, it must also meet its ethical and social responsibility goals.   A firm’s reputation is important to investors as they invest more on the basis of the entrepreneur’s track record than on the entrepreneur’s idea.  Companies also have the responsibility to report their financial performance in an accurate and timely fashion to their investors.

****Business’s Responsibility to the Community    LO 10****

In addition to providing jobs and creating wealth, companies contribute to the local community in many different ways.  Small companies can commit their employees’ talent, not just dollars, to carefully chosen social causes and then tell the world.  Examples include:

* Volunteer for community groups.
* Participate in projects that aid others.
* Adopt a highway.
* Volunteer in school programs, such as Junior Achievement.

Consider using You Be the Consultant: Funding Social Ventures Through Franchise Businesses and/or You Be the Consultant: But Is It Safe? at this point.

****Conclusion****

Businesses must do more than merely earn profits; they must act ethically and in a socially responsible manner.  Business owners and managers must recognize the key role they play in influencing their employees’ ethical and socially responsible behavior.

****Part 5: Case Studies****

The following text cases may be used for lecture and assignments for topics presented in this chapter.

* Case 1: Panda Sunglasses
* Case 2: Oxitec
* Case 9: CoolPeopleCare