

Business 200 D100: Business Fundamentals



Week 3

Beedie School of Business



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Agenda



Recap week 2

Lecture: Conducting Business Ethically and Responsibly

In-class Assignment

Lecture: Conducting Business Ethically and Responsibly

Test Your Learning

Homework

Recap Week 2



Dimensions of the External Environment



External Business Environment

Economic Environment

- Economic System in which business firms operate.

Key Goals for Canadian Economic System:

- Economic Growth
- Economic Stability
- Full employment

External Business Environment

Technological Environment

- All the ways in which the firm creates value, including human knowledge, work methods, equipment, electronics and telecommunication, and various processing systems.
 - Innovation Processes and R&D
 - Product/service technologies
 - Business process technologies

Political-Legal Environment

- Relationship between business and government.
 - Different roles of government: regulator, taxation agent, customer, essential services, incentives & financial assistance
 - Government regulates important areas, such as advertising standards, safety & health considerations, business conduct, industries, etc.

External Business Environment

Socio-Cultural Environment

- Includes customs, values and demographic characteristics.
 - Influences consumer preferences, business conduct, attitude of workforce, etc.

Business Environment

- Successful companies focus on core competencies
- **Porter's five forces model to evaluate competitiveness of an industry**
 - Threat of Substitutes
 - Threat of New Entrants
 - Bargaining Power of Suppliers
 - Bargaining Power of Consumers
 - Industry Rivalry

Chapter 3 Conducting Business Ethically and Responsibly



Learning Objectives

- Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.
- Distinguish *ethics* from *social responsibility* and identify *organizational stakeholders*.
- Show how the concept of social responsibility applies both to **environmental issues** and to **a firm's relationships with customers**, employees, and investors.
- Identify four general *approaches to social responsibility* and describe the four steps a firm must take to implement a *social responsibility program*.
- Explain how issues of social responsibility and ethics affect small businesses.



Chunumunu/Fotolia

Why do people engage in unethical behaviour?

What is UNETHICAL behaviour?

What is ETHICAL behaviour?

Why do we care?

Economic
Imperatives
Versus
Good Citizens

RIGHT & WRONG

Personal Values

Social Constructs

Standards or moral values

Culturally based

Formed upon society's expectations

Vary by person

Vary by situation

What is accepted as good and right in the context of the governing moral code.

Law and ethical behaviour

Fair trade produce

Paying low wages in a foreign country

LEGAL & ETHICAL

LEGAL & UNETHICAL

ILLEGAL & ETHICAL

ILLEGAL & UNETHICAL

Breaking the law for humanitarian reasons

“Cooking the books”



Cultural Relativism

- No culture's ethics are superior.
- The values and practices of the local setting determine 'right or wrong'.

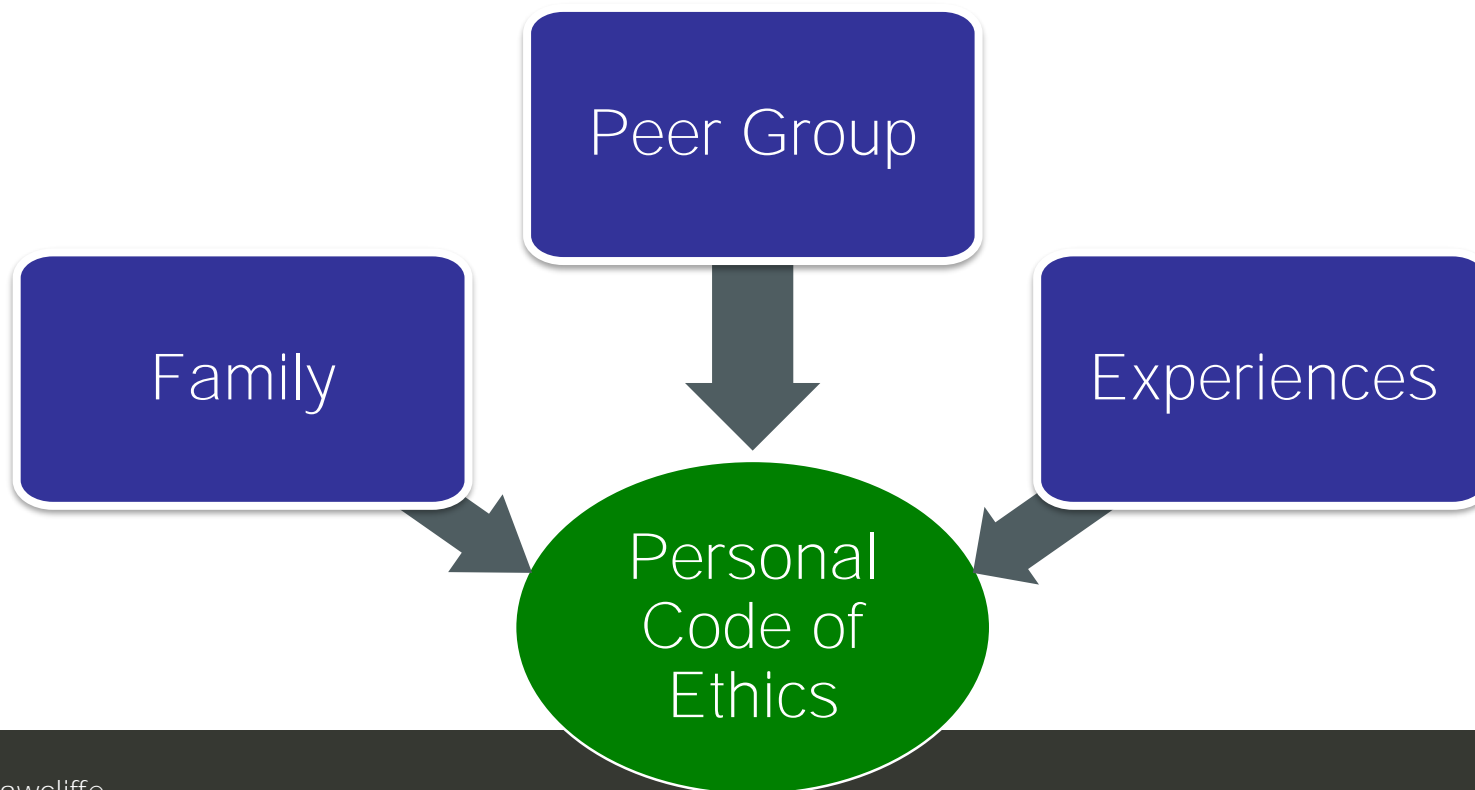
When in Rome, do as the Roman's do

Ethical Imperialism

- Certain absolute truths apply everywhere.
- Universal values exist across cultures and determine 'right or wrong'.

Don't do anything you wouldn't do at home

Source: Donaldson, Thomas. "Values in tension: Ethics away from home." *Harvard Business Review* 74.5 (1996): 48.



Influences
on
Ethical
Behaviour

MANAGERIAL ETHICS

The standards of
behaviour that guide
managers in their work

Managerial ethics are the standards of behaviour that guide managers in their work

Behaviour toward employees

Behaviour toward the organization

Behaviour toward other economic entities

Assessing Ethical Behaviour

1. Gather the relevant factual information



2. Analyze the facts to determine the most appropriate moral values



Make an ethical judgment based on the rightness or wrongness of the proposed activity or policy

Ethics in the Workplace

Assessing Ethical Behaviour

Utility

Does the act represent what is best for those who are affected by it?

Rights

Does it respect the rights of the individuals involved?

Justice

Is it consistent with what we regard as fair?

Caring

Is it consistent with people's responsibilities to others?

Example: Making Ethical Decisions

You are a successful real estate agent.

*A lady from out of town calls you to list her **deceased parent's home** on mls.ca.*

She is not sure what it is worth, but says she will be happy to get \$500,000 for it.

You look at the home and feel it is worth at least \$750,000, and think it would be perfect for your brother.

What do you do?

Ethics in the Workplace

Increase public confidence in a firm



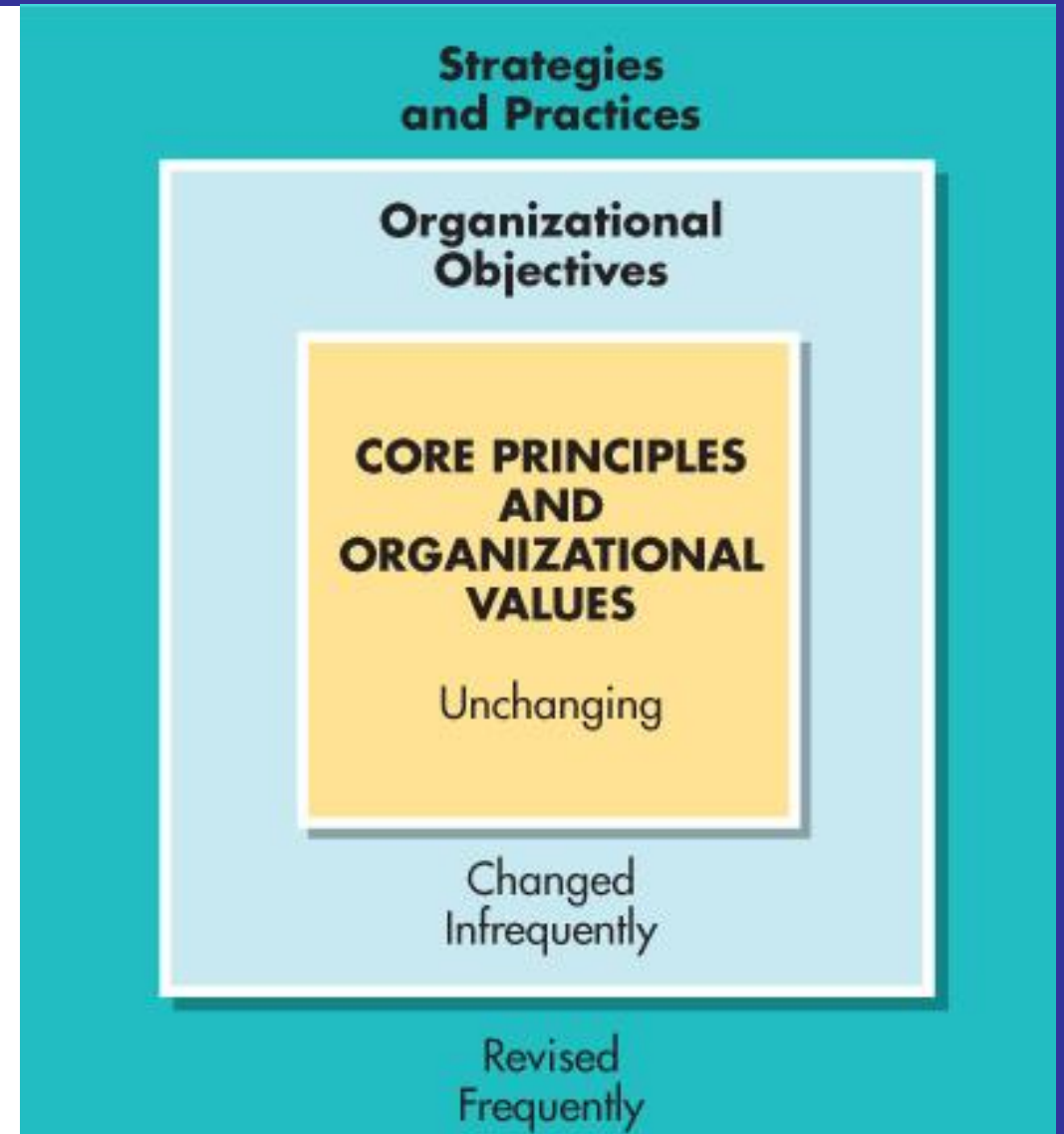
Improve internal operations by providing consistent standards of both ethical and legal conduct



Help managers respond to problems as a result of unethical or illegal behaviour

Written
Codes of
Ethics

Core Principles & Organizational Values



A woman with blonde hair tied back, wearing a white t-shirt and grey trousers, stands on a red circular rug on a stage. She is holding a small object in her hands. Behind her is a large black backdrop with the text 'TEDx Presidio' in white and red. The stage is lit with blue light from above.

TEDx Presidio

Ethics Training

- Structured program that help participants understand ethical aspects of decision making
- Helps people incorporate high ethical standards into daily work life
- Helps people deal with ethical issues under pressure

Whistleblowers

Expose misdeeds of other people to

- Preserve ethical standards
- Protect against wasteful, harmful or illegal acts

Ethical Role Models

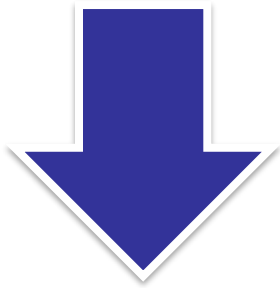
- **“Walk the talk”**
- All managers can influence the ethical behaviour of people who work for and with them

Areas of Social Responsibility

- Way in which business tries to balance commitment to stakeholders and external environment
- Balance its own interests with interests of society at large

Stakeholders

Groups
Individuals
Organizations



Directly affected by the actions of an organization and therefore have an interest in its performance



Reasons to Outsource Operations to a Developing Country

High labour costs

Restrictive regulatory environment

Protective regulation

High overhead

Unionized workforce

Areas of Social Responsibility

Responsibility Towards Environment

Responsibility Towards Customers

Responsibility Towards Employees

Responsibility Towards Investors

Responsibility toward the Environment

Air pollution

Water pollution

Land pollution

- toxic waste disposal
- recycling

Responsibility toward Customers

Rights of consumers

- *consumerism*

Unfair pricing

- *collusion*

Ethics in advertising

- truth in advertising
- advertising of counterfeit brands
- morally objectionable advertising

Rights of Consumers

Right to safe products

Right to be informed about all relevant aspects of a product

Right to be heard

Right to choose what they buy

Right to be educated about purchases

Right to courteous service

Responsibility towards Employees

Legal and social commitments

- human resource management issues
- social responsibility issues
- privacy issues
 - drug testing and computer monitoring
- encouraging ethical behaviour
 - whistle-blowers

Responsibility toward Investors

Improper financial management

Kiting cheques

Insider trading

Misrepresentation of finances

Improper Financial Management

- doing a poor job of managing the financial resources of a company
- may be legally unpunishable because no law has been broken
- it may be difficult to replace management because unrest in the firm may devalue its stock

Cheque Kiting

- illegal practice of writing cheques against money that has not yet arrived in the bank account
- **a creative “cheque kiter” can write** cheques from account to account with very little money to back it up
- the assumption is that the money will arrive before the cheque needs to clear

Insider Trading

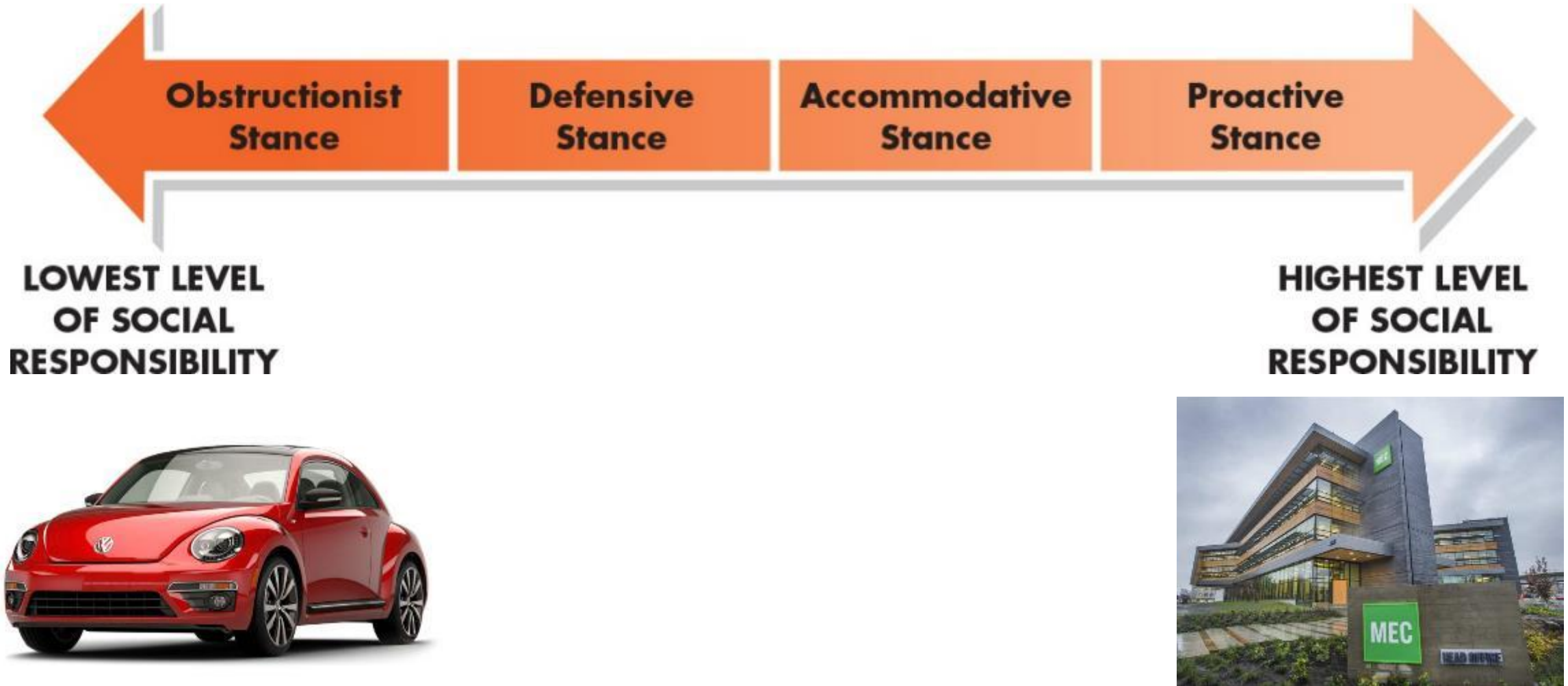
- using confidential (non-public) information to gain from the sale of stock
- involves gaining knowledge of inside information about the company prior to making the purchase
- can involve the collusion of investors buying and selling stock at the appropriate time to make huge profits

Misrepresentation of Finances

- companies must conform to accounting guidelines and principles
- failure to follow GAAP in order to inflate expected profit figures can mislead investors



Approaches to Corporate Social Responsibility



Corporate Charitable Donations

- Companies may contribute to a program
 - corporations often donate goods when disaster strikes
 - many encourage employees to volunteer

Managing Social Responsibility Programs

Top management support

Social audit

Strategic planning

Appointment of a director

Implementing Social Responsibility Programs

Step 1: Top Management Support

- develop a policy statement outlining their commitment to ethical behaviour

Step 2: Strategic Planning

- top managers develop a plan of the level of support
 - percentage of sales revenues to go to social causes
 - promise to train chronically unemployed people

Step 3: Appoint a Director

- executive-level administrator is appointed to oversee the program
- this may be a partial time work commitment on the part of existing top managers

Implementing Social Responsibility Programs

Step 4: The Social Audit

- a systematic analysis of how the firm is using funds
- addresses the effectiveness of the money spent
- Triple bottom line reporting =

Financial Reports

Social Audits

Sustainability Reports

- Sustainable Development:
 - activities that meet current needs that do not put future generations at a disadvantage

Social Responsibility and Small Businesses

- Face same issues as large businesses
- May be tested by ethical dilemmas because of limited financial resources and concerns for economic survival
 - Temptation to take cash deals (may convince themselves internally to justify an illegal choice)
 - Might avoid sustainable products because of higher costs

Test Your Understanding



QUICK-CHECK QUESTIONS

- 1) An example of CSR in action is the _____ movement, which was motivated by concerns that workers in developing countries who produce commodities like coffee were not receiving adequate payment for their products.
- A) fair trade
 - B) consumerism
 - C) ethical dilemma
 - D) managerial environmentalism

A) fair trade

QUICK-CHECK QUESTIONS

2) _____ is a movement dedicated to protecting the rights of consumers in their dealings with businesses.

- A) Fair trade
- B) Consumerism
- C) Stealth justice
- D) Stakeholder revolt

B) Consumerism

QUICK-CHECK QUESTIONS

- 3) Which of the following represents one of the fundamental customer rights listed in the text?
- A) Right to low prices
 - B) Right to be heard
 - C) Right to return all products
 - D) Right to a money back guarantee

B) Right to be heard

QUICK-CHECK QUESTIONS

- 4) If a CEO sells most of his shares in the company a few days before disastrous results are made public, he is likely guilty of _____.
- A) collusion
 - B) misrepresentation of finances
 - C) insider trading
 - D) profiteering

C) insider trading

QUICK-CHECK QUESTIONS

- 5) Businesses that take an _____ to social responsibility do as little as possible to solve social or environmental problems. When they cross the ethical or legal line that separates acceptable from unacceptable practices, their typical response is to deny or cover up their actions.
- A) accommodative
 - B) defensive
 - C) proactive
 - D) obstructionist

D) obstructionist

Homework

1. Read Chapter 4 in Ebert et al. textbook:
“Entrepreneurship”
2. Take Canvas Quiz 02 - Chapter 4.
 - Due before class

