

## Chapter 03

### Ethical and Socially Responsible Behavior

#### Ethics

- **Ethics refers to the study of morals and moral choices of human being.**
- **The behavior of individuals and groups which are governed by standards, rules, and codes of conduct consist of the subjects covered by ethics.**

#### What is Business Ethics?

- The moral principles defining right and wrong behavior of businesspersons and their agents •
- It implores them to adhere to certain ethical conduct when dealing with anybody especially those affected by their business activities.
- **BLAKE MYCOSKIE TOMS Shoes**
- While appearing on The Amazing Race, Mycoskie saw how badly local children in Argentina needed shoes. He founded TOMS in TOMS gives a pair of shoes to a child in need for every pair sold.

#### **COST of CORRUPTION (Legal Briefcase)**

- Madoff Investment Securities: Bernie Madoff is serving 150 years behind bars after running his exclusive wealth management firm as a gigantic Ponzi scheme.
- Enron: Jeffery Skilling is serving a 24 year sentence for accounting fraud while
- Richard Causey, who pled guilty, will be released in October Former CEO, Kenneth Lay, died before sentencing.
- WorldCom: Former CEO, Bernie Ebbers, was convicted of fraud, conspiracy and false filings and sentenced to 25 years.

#### **BASIC MORAL VALUES Right: Wrong: Integrity Cheating Cowardice**

- Ethical Standards are Fundamental
- Right:
- Integrity
- Respect for human life
- Self-control
- Honesty

- Courage
- Self-sacrifice
- Wrong:
- Cheating
- Cowardice
- Cruelty

### **Ethics Begins with Each of Us**

Plagiarizing from Internet materials is the most common form of cheating in schools today.

Studies found a strong relationship between academic dishonesty and dishonesty at work.

### **FACING ETHICAL DILEMMAS**

Ethics Begins with Each of Us

Ask yourself these questions:

Is my proposed action legal?

Am I violating any law or company policy Whether you're thinking about having a drink and driving home gathering marketing intelligence, designing a product, hiring or firing employees, getting rid of industrial waste, or using a questionable nickname for an employee, think about the legal implications. This is the most basic question in business ethics, but it is only the first.

2. Is it balanced?

Am I acting fairly? would I want to be treated this way? will I win everything at the expense of another? win-lose situations-often become lose-lose situations and generate retaliation from the loser. Not every situation can be completely balanced, but the health of our relationships requires us to avoid major imbalances over time. An ethical businessperson has a win-win attitude and tries to make decisions that benefit all.

3. How will it make me feel about myself?

Would I feel proud if my family learned of my decision? My friends? Could I discuss the proposed situation or action with my supervisor? The company's clients? will I have to hide my actions? Has someone warned me not to disclose them. What if my decision were announced on the evening news? Am I feeling unusually nervous? Decisions that go against our sense of right and wrong make us feel bad-they erode our self-esteem. That is why an ethical businessperson does what is proper as well as what is profitable

## **ETHICS START at the TOP**

- Organizational ethics begin at the top.
- Managers can help instill corporate values in employees.
- Trust between workers and managers must be based on fairness, honesty, openness and moral integrity.
- Leadership helps to instill corporate values in employees. So, like many aspects of business, ethical behavior practiced and modeled by managers and executives will often trickle down to the employees at large.

## **HOW to PREVENT UNETHICAL BEHAVIORS**

- Managers must communicate the organization's vision on ethical behavior.
- Organizations must have a code of ethics.
- Policies have to be enforced regarding ethical offences.
- Ethical responsibility must be taught to all employees.
- What is management's role in preventing unethical behaviors?
- What can be done to deter unethical behaviors on the part of employees?
- Increasing the penalty and educating employees are among the top methods for deterring unethical behaviors.
- Thirty percent of the respondents in a poll suggested adding new laws to deter unethical behaviors.
- If ethics is more than legality, would new laws help?
- Although ethics is more than legality, if something is against the law, people may refrain from such behavior. However, it should be pointed out that ethics should be the way of life, i.e., it needs to be ingrained in the employees through culture and role modeling by managers and executives.)Source: James Gehrke, Magnify Leadership & Development, November 2008.

## **Steps to Improve Business Ethics**

1. Top management support
2. Employees' understanding
3. Managers' training
4. Ethics Office- *whistle blower*
5. Outsiders must be informed
6. Enforcement of ethics code

**Fair marketing and selling practices**

**Fair employment practices**

**Bribery**

#### **FACTORS INFLUENCING MANAGERIAL ETHICS**

<b>Individual</b>	<b>Organizational</b>	<b>Environmental</b>
<ul style="list-style-type: none"><li>• Values</li><li>• Work Background</li><li>• Family Status</li><li>• Personality</li></ul>	<ul style="list-style-type: none"><li>• Top Level Management Philosophy</li><li>• Firm's Reward System</li><li>• Job Dimensions</li></ul>	<ul style="list-style-type: none"><li>• Competition</li><li>• Economic Conditions</li><li>• Social/Cultural Institutions</li></ul>

#### **Corporate Social Responsibility**

- Focuses on what an organisation does to influence the society in which it exists.

The arena of social responsibility debates is shaped by

- Economic responsibility – be profitable
- Legal responsibility – obey the law
- Ethical responsibility – be ethical. Do what is right. Avoid harm.
- Discretionary responsibility: Contribute to the community and quality of life

#### **Corporate Social Responsibility**

- Corporate philanthropy
- Corporate social initiatives
- Corporate responsibility

- **Corporate policies**

Corporate philanthropy includes charitable donations to nonprofit groups of all kinds. Eighty percent of the business leaders surveyed in a recent study said that their companies participate in philanthropic activities. Some make long-term commitments to one cause, such as McDonald's Ronald McDonald Houses for families whose critically ill children require treatment away from home. The Bill & Melinda Gates Foundation is by far the nation's largest philanthropic foundation, with assets of more than \$37 billion.

Corporate social initiatives include enhanced forms of corporate philanthropy. corporate social initiatives differ from traditional philanthropy in that they are more directly related to the company's competencies. For example, logistics giant TNT keeps a 50-person emergency-response team on standby to go any-where in the world at 48 hours' notice. The team has helped in more than two dozen emergencies, including the 2004 Asian tsunami. "we're just faster," says Ludo Oelrich, the director of TNT's Moving the World program.

Corporate Responsibility includes everything from hiring minority workers to making safe products, minimizing pollution, using energy wisely, and providing a safe work environment-essentially everything that has to do with acting responsibly within society.

Corporate policy refers to the position a firm takes on social and political issues. For example, Patagonia's corporate policy includes this statement: "A love of wild and beautiful places demands participation in the fight to save them, and to help reverse the steep decline in the overall environmental health of our planet. We donate our time, services and at least 1% of our sales to hundreds of grassroots environmental groups all over the world who work to help reverse the tide.

### **Stakeholders to whom businesses are responsible**

- **Responsibility to Customers**
  - **Right to safety**
  - **Right to be informed**
  - **Right to choose**
  - **Right to be heard**

One sure way of failing to please customers is to be less than honest with them. The payoff for socially conscious behavior however, can be new customers who admire the company's social efforts-a powerful competitive edge. Consumer behavior studies show that, all else being equal, a socially conscious company is likely to be viewed more favorably than others.

- **Responsibility to Investors**

Many investors believe that it makes financial as well as moral sense to invest in companies that plan ahead to create a better environment. By choosing to put their money into companies whose goods and services benefit the community and the environment, investors can improve their own financial health while improving society.

**Insider trading**-insider trading uses private company information to further insiders' own fortunes or those of their family and friends

- **Responsibility to Employees**

If a company treats employees with respect these employees will usually treat companies with respect as well.

- **Responsibility to society and the environment**

As concern about global warming increased, - the green movement emerged a nearly every aspect of daily life. What makes a life green? Some believe that a product carbon footprint (the amount of carbon released during production, distribution, consumption, and disposal defines how green it is. Many variables contribute to a producers carbon footprint.

## **SOCIAL AUDITING**

- **Social Audit** -- *A systematic evaluation of an organization's progress toward implementing programs that are socially responsible and responsive.*

### **Four Types of Social Audit Watchdogs**

- *Socially conscious investors*
- *Environmentalists*- **Bangladesh Environmental Lawyers Association**
- *Union officials*- **"Garment Sromik Trade Union Kendro"**.
- *Customers*