



Business ethics and social responsibility 23

Learning objectives

In this chapter you will learn about:

- 1 The characteristics of an ethical business
- 2 The social responsibilities of business
- 3 The costs and benefits of being ethical and socially responsible

Ethics in business

Ethics are a set of principles which help an individual or organisation to decide what is right and what is wrong. Firms should do what is **morally right** and should be **honest** and **fair** in their dealings with others.

Features of an ethical business

- **Ethos:** The firm sets out its intention to be ethical in its mission statement and all staff understand this.
- **Leadership:** Ethical behaviour comes from the top down.
- **Accountability:** Individuals are made accountable for any unethical behaviour and the firm will not seek to protect them from any consequences that arise.
- **Whistle-blowing:** Staff are encouraged to report any unethical behaviour they come across.
- **Code of ethics:** The firm adopts a written set of rules to ensure ethical behaviour.
- **Training:** Staff learn that they must behave ethically on behalf of the firm when they do induction training.
- **Ethical audits:** Regular checks are done to ensure that the firm is operating in an ethical way.



Social responsibility in business

Firms must take responsibility for looking after the interests of all the stakeholders in the business as well as the local community and the society in which it operates. Businesses must be socially responsible to investors, workers, suppliers, customers, the community, the government and society as a whole.

A business can become more socially responsible by

- Making social responsibility an **objective** of the firm
- **Consulting** widely with all **stakeholders** about developments in the business
- Conducting **social audits** to confirm that the firm is acting in a socially responsible fashion
- Committing resources towards supporting **charitable and community projects**
- Making public commitments to being socially responsible and using this as a positive **public relations exercise**
- Making social responsibility a factor in all **business decisions**
- **Unnecessary packaging** on products, causing waste
- **Non-renewable resources** exhausted
- **Renewable resources** need to be developed, particularly in the area of energy
- **Environmental legislation** is getting stronger and more demanding on business
- Firms must engage in **sustainable development**, i.e. the actions of the firm must not have a negative effect on our ability to produce in the future
- **Waste reduction and recycling**
- **'Polluter pays' principle**: a firm or individual can be made to pay for the cost of repairing damage done by pollution
- **Active environmental groups** (e.g. Greenpeace and Earthwatch) lobby to prevent developments if they believe they are bad for the environment



Environmental issues facing business

- **Pollution** of air, water and land
- **Climate change** resulting from excessive emissions
- **Illegal dumping** of waste

Features of an environmentally friendly business

- **Consults** with stakeholders and environmental groups before embarking on new projects
- Always carries out an **environmental impact assessment (EIA)** for any new project to assess its likely impact on the environment
- Develops a positive **ethos** within the firm towards the environment
- Considers the effect on the environment of all **decisions** it makes
- Carries out **environmental audits** on a regular basis to ensure that the firm is not causing damage to the environment

Cost/benefit analysis of being socially responsible

Costs

- Higher **wage costs** to provide employees with fair wages
- **Lower profitability** resulting from fairer pricing of products
- Higher **costs of setting up production** to minimise pollution
- Increased **R&D costs** to develop low-pollution production methods

Top Tip!

You should be able to identify the environmental issues facing businesses and the effects of these issues on the operation of the firm.

Benefits

- Development of a **loyal customer base**
- Having an ethical ethos may **reduce theft** from the firm by the staff
- Social responsibility can be a **positive marketing point**
- Cost savings through **waste reduction** and production efficiency
- **Costs to society**, e.g. pollution, are greatly reduced

Top Tip!

An Applied Business Question (ABQ) is compulsory on the exam every year. Below is an ABQ based on Units 4, 5 and 6. This ABQ relates to years 2017, 2022 and 2027.

Exam question

- 1 Read the information supplied and answer the question that follows.

Riverport is a scenic town in the west of Ireland. In 2009 a large multinational company, the town's biggest employer, closed down. This loss motivated a group of enthusiastic local residents and businesspeople to do something to revive their local community. They saw the multinational's empty factory warehouse as a potential

resource and believed its location, easy access and ample parking would assist local development projects. They consulted widely, gathering information from as many local interests as possible.

Arising from the consultation process, local farmers, producers and craftspeople identified the provision of an indoor farmers' market as being a unique opportunity to sell their produce directly to the consumer. A small group of local businesspeople formed a private limited company, Riverport Indoor Market (RIM) Ltd. It set about identifying the financing options available to purchase the factory warehouse for the agreed price of €400,000. An additional €50,000 was required to refurbish the warehouse into 50 stall units, which could then be rented out to farmers and craftspeople. The stallholders had to initially purchase a transport vehicle, equip their stall and pay the agreed stall rent of €50 a day to RIM Ltd. On an ongoing basis, the stallholders would have to manage cash flow effectively and control essential costs such as raw materials, stock, transport operating costs, wages and insurance.

The farmers' market proved a major success. At the end of its second year the number of stallholders had increased from its original seven to 30. Due to the increasing numbers visiting the market, RIM Ltd was able to lease out units within the warehouse to an indoor children's play and activity centre, and a car valeting centre. Many local services in Riverport such as B&Bs, restaurants and petrol stations reported increased year-end profits. The market provided opportunities for locals and visitors to meet informally and interact with each other. The local town council donated a nearby green area for the construction of a public park.

Given that many of the new stallholders travel from neighbouring counties, there are plans now to promote RIM Ltd as a regional market, serving the Connacht area. RIM Ltd has developed an interactive website which includes a video clip capturing a day in the life of the market. This website has impressed tour operators so much that they have included the market as part of their visitor tour route. Sales representatives from RIM Ltd use mobile display booths within the region to attract visitors to the area. In addition, RIM Ltd run monthly competitions to win a prize of a weekend break in Riverport. RIM Ltd continues to build on its good relationship with the local community by providing financial support to the local GAA club, in return for having the RIM Ltd brand name and logo appear on the club's jersey.

(a) Identify and describe the most appropriate sources of finance to meet the needs of:

(i) RIM Ltd

(ii) Individual stallholders. (20 marks)

(b) Discuss the benefits for the local community, arising from the success of RIM Ltd. (30 marks)

(c) Evaluate the promotional techniques undertaken by RIM Ltd. (30 marks)

(2012, 80 marks)

Sample answer

(a)

(i)

Long-term finance

Mortgage/long-term loan/debenture

It is taken out for more than five years. If the bank lends the €400,000 to RIM Ltd, it will hold the deeds of the factory warehouse as security against the repayment of the loan. It is paid in agreed instalments including interest, which is tax deductible. If RIM Ltd defaults on the repayment, the bank can recover their money through the repossession and sale of the warehouse.

Equity/share capital/owners capital

RIM Ltd is a private limited company and the €400,000 needed to purchase the warehouse could be raised by selling ordinary shares to new or existing shareholders. No security or repayments are required for RIM Ltd.

Government grants

Government agencies such as Enterprise Ireland or County Enterprise Boards could be approached for grant aid assistance to help purchase the factory warehouse for €400,000. Normally they are interest free and do not have to be repaid if used for their intended purpose.

Link to text

It set about identifying the financing options available to purchase the factory warehouse for the agreed price of €400,000.

Medium-term finance

Medium-term loan:

RIM Ltd could get a medium-term bank loan with a fixed rate of interest that would be repaid in equal monthly instalments up to a five-year period, allowing the company to cash purchase and negotiate the best cash prices available for heating equipment, fixtures and fittings, etc. The bank may require security or personal guarantees. Interest paid is tax deductible. RIM Ltd will know in advance the amount and number of repayments and can budget accordingly.

Link to text

An additional €50,000 was required to refurbish the warehouse into 50 stall units which could then be rented out to farmers and craftspeople.

(ii)

Medium-term finance

Hire purchase

This is a method of finance that would allow the individual stallholders to purchase an asset such as a transport vehicle over a five-year period or less. The stallholder will get immediate possession of the transport vehicle; however, ownership

doesn't transfer until the last instalment is made. HP is an expensive source of finance. No security is required but the HP company may repossess the asset if there is a default in repayments.

Leasing

This would involve the renting of an asset by the individual stallholder from a finance company. The stallholder will not have to come up with a lump sum and would have the full use and possession of an asset, provided s/he makes fixed and regular payments to the company. While leasing costs more than cash purchase, it can help the cash flow of a business.

Link to text

The stallholders had to initially purchase a transport vehicle, equip their stall...

Short-term finance

Bank overdraft

This is a facility offered by a bank that allows current account holders to withdraw more money from their account than they actually have in it. Interest is charged on the outstanding balance on a daily basis. It can be recalled by the bank at any time. The individual stallholders could use their overdraft facility to purchase stock or pay the wages of part-time staff. It can be used as a form of working capital to aid in day-to-day business operations.

Accrued expenses

This source of finance frees up money by delaying the payment of regular bills such as utilities, rent or insurance. This would free up cash to pay for supplies which in turn could be sold allowing these bills to be paid later.

Trade credit

Stallholders may buy stock for resale on a 'buy now and pay later' basis. The amount of credit available is influenced by the creditworthiness of the stallholders. There is no direct charge but cash discounts may be foregone.

Link to text

The stallholders would have to manage cash flow effectively and control essential costs such as raw materials, stock, transport operating costs, wages and insurance.
or

The stallholders had to...equip their stall and pay the agreed stall rent of €50 a day to RIM Ltd. (Candidate treating 'equip stall' as a purchase of 'stock'.) (20 marks)

(b)

Economic benefits

Direct employment/job creation

Jobs are directly created in the community reducing unemployment.

Link to text

At the end of its second year the number of stallholders had increased from its original seven to 30.

Spin-off employment

With increased employment and increased visitor numbers more income is being spent in the community, increasing spin-off jobs in the retail and services businesses.

Link to text

Many local services in Riverport such as B&Bs, restaurants and petrol stations reported increased year-end profits.

Enterprise culture

New enterprise is encouraged and promoted. Other new businesses ('start-ups') have set up in the market as confidence grows from the success of RIM Ltd.

Link to text

Lease out units within the warehouse to an indoor children's play and activity centre and a car valeting centre.

Local produce

Goods are provided to local consumers by local producers. Locals do not have to shop outside their local area (i.e. shop local).

Link to text

Unique opportunity to sell their produce directly to the consumer.

Income for local authorities

Commercial rates are an important source of income for local authorities and as new businesses are established, revenue from commercial rates increases, allowing the local council to improve amenities.

Link to text

The local town council donated a nearby green area for the construction of a public park.

Social benefits

Community spirit/sense of pride/improved quality of life

The success of RIM Ltd has facilitated an improvement in community spirit and social interaction between the different community stakeholders. With prosperity comes a sense of pride in the community as the town's appearance and amenities improve.

Link to text

The market provided opportunities for locals and visitors to meet informally and interact with each other.

or

The local town council donated a nearby green area for the construction of a public park.

or

RIM Ltd was able to lease out units within the warehouse to an indoor children's play and activity centre.

Depopulation is prevented and the social fabric maintained. When an area is being developed people tend to stay there and not leave. The population does not decrease and life stays in the community (schools, health centres, etc.).

Link to text

RIM Ltd was able to lease out units within the warehouse to an indoor children's play and activity centre.

(c)

There are four promotional techniques undertaken by RIM Ltd. They are direct advertising, sales promotion, public relations and personal selling.

Direct advertising

Advertising is the communication of information to a target market/audience using the advertising media such as press, publications, posters, radio, TV, cinema, internet.

Advertising includes the publication of facts or opinions concerning goods/services to awaken the public's interest and persuade them to purchase.

It is a very public form of communication and suitable for a wide audience. It creates an awareness of the product in an attempt to convince consumers to purchase. Advertising encourages repeat purchasing, consumer loyalty and increased sales.

The individual goes through a number of stages. Advertising must create attention, interest, desire and action (AIDA) to be effective.

Advertising offers the consumer a reason to buy.

RIM Ltd uses the internet to advertise the indoor market.

Link to text

RIM Ltd has developed an interactive website which includes a video clip capturing a day in the life of the market.

or

Link to text

The website has impressed tour operators so much that they have included the market as part of their visitor tour route.

Personal selling

This occurs when a salesperson is in direct contact with the customer and tries to verbally persuade customers to buy a product or service.

Sales representatives must have good personal and communications skills. They must have detailed knowledge of the product or service being sold.

They provide feedback to the company on customers' reactions to the product/service.

They attract new customers as well as retaining existing customers.

RIM Ltd uses personal selling by employing sales representatives to visit various locations and promote the market.

Link to text

Sales representatives from RIM Ltd use mobile display booths within the region to attract visitors to the area.

Sales promotion

Sales promotion involves the use of short-term incentives and gimmicks/short-term temporary activities to encourage purchase. It is designed to create a sense of immediacy by offering reasons to purchase in the short term, thereby increasing sales.

Forms of sales promotion include coupons, vouchers, loyalty cards, free samples, banded offers, competitions, etc.

This may be useful when launching a new product/service or relaunching an existing product or service.

The purposes of sales promotion include: attracting new users for the product; rewarding loyal users; increasing purchasing frequency among occasional users.

Sales promotion can be used to complement direct advertising and encourage repeat business.

Sales promotion offers the consumer an incentive to buy.

Link to text

RIM Ltd runs monthly competitions to win a prize of a weekend break in Riverport.

Public relations

The aim of PR is to generate goodwill/positive customer relations for the business/achieve favourable publicity/positive image for the product, service or firm.

Specific tools/methods for communicating the message include press statements to the media, speeches by management, conferences, photo opportunities, newsletters, annual reports, company brochures, social/charitable activities.

Sponsorship: A company pays money so that their name/logo RIM Ltd can be associated with an event/sports team (e.g. Failte Ireland sponsored the Irish Open Golf Tournament). The company will then be tied to any publicity of the event/sports team. Businesses enhance their reputation by making positive contributions to the local community.

The business benefits from the indirect advertising generated by the event/sports team.

Link to text

RIM Ltd continues to build on its good relationship with the local community by providing financial support to the local GAA club, in return for having the RIM Ltd brand name and logo appear on the club's jersey.

(Evaluation required)

Marking scheme

(a)

(i) • Long-term: 7 marks ($7 = 2 + 3 + 2$) • Medium-term: 6 marks ($6 = 2 + 2 + 2$)

(ii) • Short-term: 7 marks ($7 = 2 + 3 + 2$)

(b)

• Three benefits (name/type/explanation/relevant link): 3 x 10 marks ($10 = 3 + 4 + 3$)

Note: At least one of each economic/social required

(c)

• Three promotional techniques (name/type/explanation/relevant link):
3 x 10 marks ($10 = 3 + 4 + 3$)

Questions

Higher Level long questions

- 1 Illustrate the characteristics of an environmentally conscious business.
(2010, 20 marks)
- 2 Discuss the social responsibilities that a business has towards its various stakeholders.
(2009, 20 marks)
- 3
 - (i) Define 'code of ethics'.
 - (ii) Outline the effects on a firm's costs of meeting its ethical and social responsibilities.
(2007, 20 marks)

Key-points!

- Features of an ethical business
- Environmental issues facing businesses

Key-definitions!

code of ethics: A set of rules to guide staff in an organisation to ensure that they do the right thing rather than the wrong, from a moral point of view.

environmental audit: An assessment of an organisation to establish the impact of its activities on the environment.

Environmental Impact Assessment (EIA): An examination and report on the potential effects of any new project or development on the environment.

environmental policy: A set of EU regulations aimed at ensuring that damage to the environment is minimised and that all development is sustainable.

green taxes: Taxes imposed by governments which are intended to influence producers and consumers to behave in ways which are good for the environment, e.g. the tax on plastic bags has greatly reduced plastic bag pollution.

non-renewable resources: Raw materials that once used cannot be replaced, e.g. coal, natural gas.

'polluter pays' principle: When environmental damage has been done, the organisations responsible are made to correct the damage or pay for the necessary work.

renewable resources: Raw material and sources of energy that can be replaced or renewed, allowing production to continue into the future, e.g. vegetable oils, wind power.

resource audit: A survey in a community area to identify all the resources, human, physical and financial, which can be used for the economic and social development of the area.

social responsibility: Refers to the duty of those running a business to look after the wider society in which they operate by being honest, fair, transparent, environmentally aware and considerate of their employees and customers.

sustainable development: This refers to economic or business activity that does not adversely affect our capacity to produce goods in the future.

urban renewal: Refers to the rebuilding of parts of cities which have been in decline.