

Foundation Studies

Business Environments

Part 3: The Sustainability Environment of Business

Unit 10

Ethics and Social Responsibility:
The Broader Role of Business in Society

Lecturer:

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Overview

- Introduction to Ethics and Social Responsibility in Business
- Foundations of Ethics in Theory and Practice
- Social Responsibility of the Firm



The 'resource curse' refers to countries that underperform economically and have high rates of poverty, despite the fact that they contain an abundance of natural resources.

Photo: getty

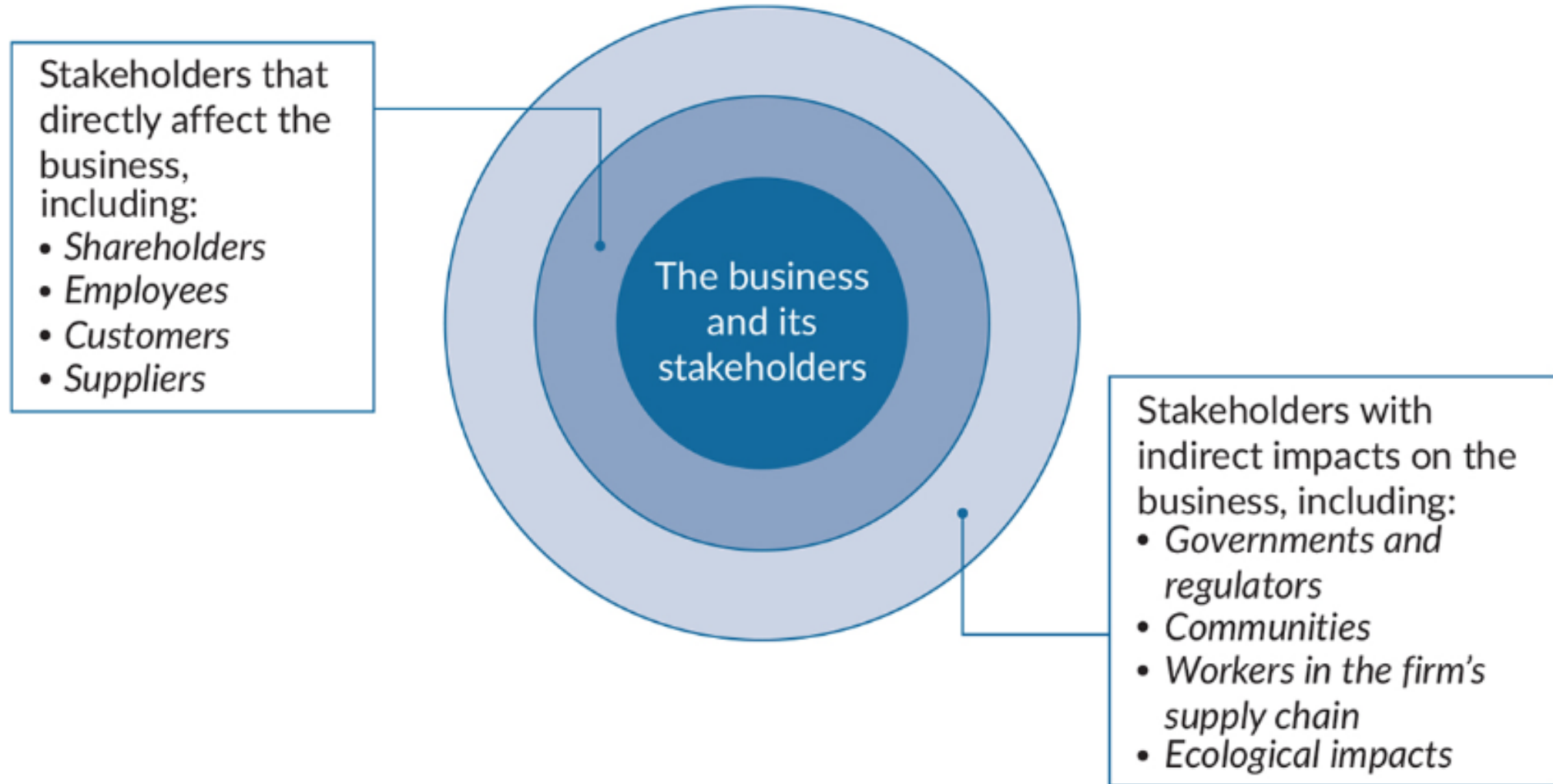
Introduction to Ethics and Social Responsibility in Business



The Company in Society: Stakeholders

- **Stakeholders:**
 - Individuals, groups, or society at large that influence or are influenced by the company.
 - Stakeholders can be:
 - » **Direct** (e.g., owners, employees, customers, suppliers) or
 - » **Indirect** (e.g., local community, society, ecological environment).
- **Stakeholder interests:**
 - Enriching owners while satisfying customers.
 - Involvement in society through employment, resource utilisation, and interactions with authorities.
 - Importance of relationships with direct and indirect stakeholders.

The business and its stakeholders



Source: Morrison, J. (2023). *The Global Business Environment*. 6th ed. Bloomsbury Publishing, p 27.

Questions to Consider

What does a business exist to do?

How should it achieve its goals?

Traditional Economic Goal

Primary Focus: Maximising profit for owners and shareholders.

Emerging Perspective: Businesses have a broader societal role

Businesses play a multidimensional role, influencing not just owners, but also employees, customers, communities, and even global issues like climate change.

Business's Multidimensional Role

- **Stakeholder perspective:**
 - Customers, employees, suppliers, the community, and the environment.
- **New expectations:**
 - Businesses are increasingly expected to address broader societal issues and contribute positively to the community and the environment.
- **Global perspective:**
 - Role in climate change and sustainability.
 - The concept of environmental responsibility.
 - The impact of business activities on the planet.

Corporate Social Responsibility (CSR)

- CSR is a framework that encourages businesses to act ethically and contribute to economic development while improving the quality of life for employees, communities, and the environment.
- CSR involves recognising the firm's economic, legal, moral, and social roles.
- Ethical principles in CSR are rooted in human rights and the firm's broader role in society.
- CSR encourages businesses to consider long-term impacts on society and the environment.
- It reflects a shift from purely economic objectives to broader social and environmental considerations.

Corporate Social Responsibility (CSR)

- **The business case for CSR:**
 - Ethical Foundations: Companies are expected to operate in a manner that is ethical and responsible.
 - Public Expectations: Growing public demand for businesses to engage in social and environmental issues.
- **CSR in practice:**
 - Examples of CSR include sustainable sourcing, reducing carbon footprints, and fair labour practices.

Corporate Social Responsibility (CSR) and Sustainability

- Sustainability focuses on ensuring that today's business practices do not compromise future generations' ability to meet their needs.
- CSR and sustainability emphasise considering future stakeholders and not just present-day interests.
- Conflicts between social goals (e.g., paying living wages, adopting cleaner technologies) and economic goals (e.g., profit maximisation) often arise in corporate decision-making.



[Picture Source](#)

Where Do Business Duties Come From?

- **Sources of business responsibilities:**
 - Ethical Considerations: Influence individual and group behaviour within businesses.
 - Corporate Social Responsibility (CSR): Extends responsibilities to stakeholders beyond legal obligations.
- **Balancing traditional goals and broader duties:**
 - Does the focus on broader societal duties diminish the importance of economic goals?
 - The evolving perspective on the role of businesses in achieving social and environmental goals.

Shifting Public Expectations and Business Response

- The changing landscape:
 - Public awareness: Consumers and stakeholders are more informed and concerned about ethical practices.
 - Public expectations: Shifts in societal expectations for business involvement in social and environmental issues.
 - Business adaptation: Companies are shifting from viewing CSR as a peripheral activity to integrating it into their core strategy.
- Social enterprises as models:
 - Commitment to social goals: Social enterprises prioritise social and environmental objectives alongside economic goals. (See more in Unit 11)
- Interaction with governments:
 - Collaborative efforts: Increasing partnerships between businesses and governments to achieve social aims.

Foundations of Ethics in Theory and Practice



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Ethical Foundations in Business

Ethics defined:

- Ethics is fundamentally about systems of values (also known as standards of morality) that help individuals and societies determine what is considered right or wrong. These systems guide decision-making and behaviour, and differ across cultures and societies.

Ethical Foundations in Business

Business decision-making deals with conflicts, dilemmas, and choices regarding obligations, morality, and public interest. Utilitarian ethics and deontological ethics are ethical theories in decision-making.

Ethical theories:

Utilitarian ethics

- Making decisions based on ethical consequences.
- The morality of an action is judged by its outcome but violate rules.
- Focuses on the greatest good for the greatest number (aggregate individual goods and overall societal happiness).
- Inclined to be more society-centred.

Deontological ethics

- Making decisions based on ethical principles.
- Focuses on the strict adherence to rules and duties, regardless of the outcomes.
- Consequences are not used to justify means
- Actions are considered morally right if they follow a set of predefined principles or rules.

Ethical Foundations in Business

Ethical theories:

Utilitarianism

- **Example 1: Public Health Policy**
 - Scenario: A government decides to implement a vaccination program for a contagious disease.
 - Utilitarian approach: The decision is based on the principle of maximising overall health and minimising suffering. The program aims to protect the majority of the population, even if there are some adverse effects for a small minority.
 - Outcome: The vaccination program is judged morally right (ethical) because it results in the greatest overall benefit by preventing widespread disease and protecting public health.

Ethical Foundations in Business

Ethical theories:

Utilitarianism

- **Example 2: Corporate Environmental Responsibility**
 - Scenario: A company evaluates its manufacturing process and discovers that it generates significant waste and environmental damage. Reducing waste would require an investment in new technology but would improve environmental outcomes.
 - Utilitarian approach: The company decides to invest in sustainable practices because the overall benefits, such as reducing environmental harm, improving public health, and enhancing the company's reputation, outweigh the additional costs. The company implements waste reduction measures and adopts eco-friendly technologies, aiming to maximise the overall good by contributing to a healthier environment and benefiting society at large.
 - Outcome: The decision is morally right (ethical) because it results in the greatest overall benefit, considering the positive impact on the environment and public well-being.

Ethical Foundations in Business

Ethical theories:

Deontological ethics

- **Example 2: Corporate Environmental Responsibility**

- Scenario: A company discovers that their manufacturing process results in excessive waste and environmental harm. Although reducing waste would incur additional costs, it is within the company's power to make the change.
- Deontological approach: The company has a duty to respect the environment and minimise harm, regardless of the financial implications. The company decides to invest in sustainable technologies and implement waste reduction practices, even though it is more expensive and might impact short-term profits.
- Outcome: The decision is morally right because it aligns with the principle of environmental stewardship and the duty to avoid causing harm, adhering to ethical principles over financial considerations.

Ethical Foundations in Business

Cultural diversity in ethics:
How cultural differences influence perceptions of right and wrong.

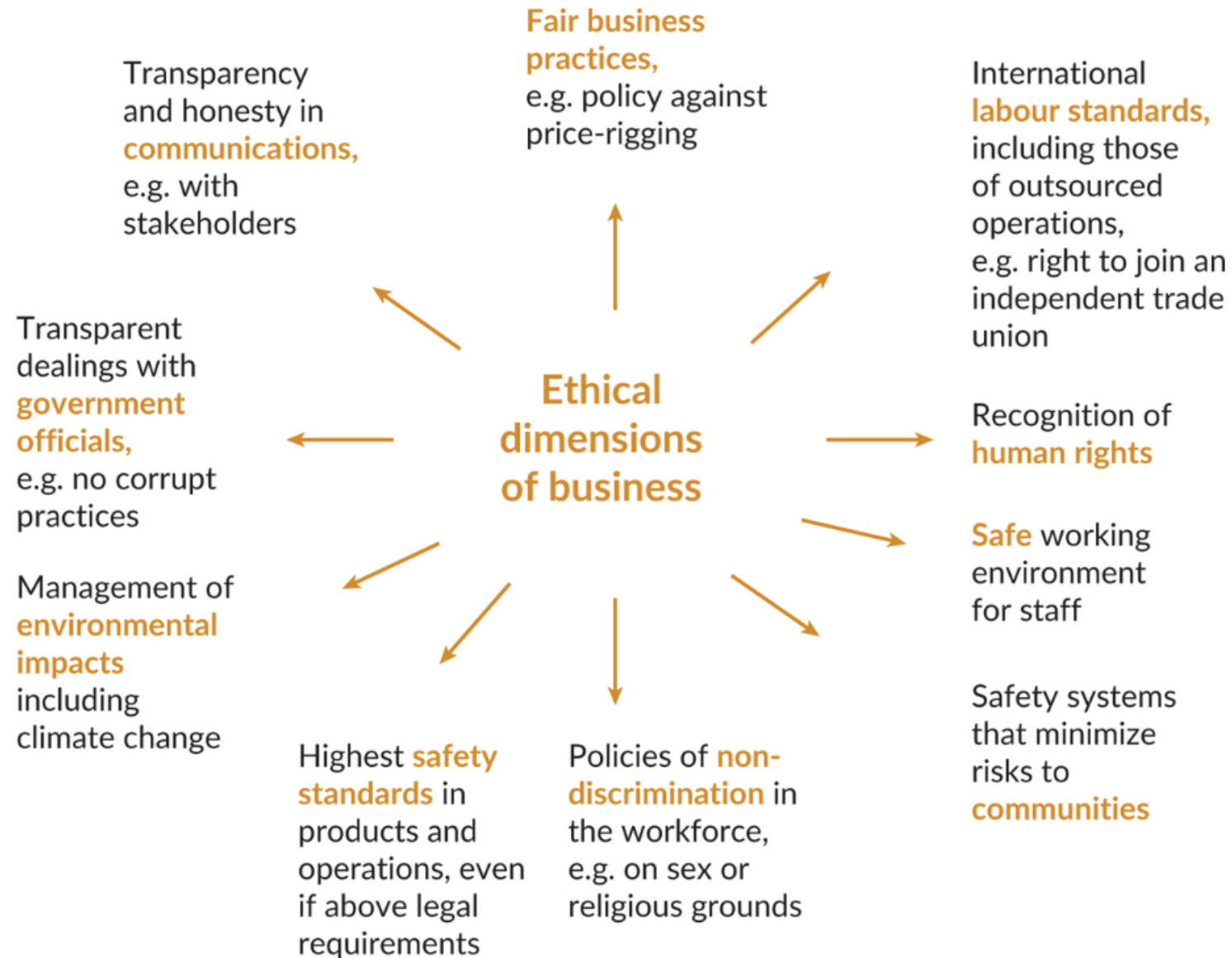
Ethical relativism

- Suggests that moral standards are culturally bound and subjective.
- Example: Bribery might be seen as a common business practice in certain regions, whereas it is strictly prohibited/condemned in others.

Universalism

- Holds that there are universal moral principles that apply across all cultures.
- Example: Ethical standards against child labour are upheld universally, advocating for the protection of children's rights irrespective of local practices.

Ethical dimensions of business



Source: Morrison, J. (2023). *The Global Business Environment*. 6th ed. Bloomsbury Publishing, p 284.

Ethical Foundations in Business

Legal vs. Ethical obligations:

- The importance of adhering to both legal standards (laws and regulations) and ethical considerations (principles of right and wrong) in business practices.
- Examples of Legal vs. Ethical obligations
 - Legal: Adhering to minimum wage laws.
 - Ethical: Paying employees a living wage beyond the legal minimum.

Balancing Ethical and Legal Obligations

- Dual responsibilities: Businesses have both ethical and legal duties to protect the environment.
- Scope of duty: Obligations extend to workers, local communities, and future generations (intergenerational justice).
- Sustainability: Firms must consider long-term impacts, balancing present needs with those of future generations.

Ethical Dimensions of Business

Example: Negligence in manufacturing

- Negligence in manufacturing occurs when a company fails to meet the standard of care expected in the industry, leading to unsafe products or practices. This can result in harm to consumers, employees, or the environment.
- Ethically, negligence questions whether a company is doing enough to prevent harm and whether it is acting with the proper level of diligence. It raises issues about the moral responsibility of businesses to avoid causing harm and to act in a way that reflects respect for others' safety and rights.

Ethical Dimensions of Business

Example: Negligence in manufacturing

- Impact on stakeholders: The ethical implications of negligence extend to various stakeholders, including customers, employees, and communities. Businesses must balance profit motives with the need to ensure safety and quality, considering both legal requirements and moral responsibilities.
- Trust and reputation: Ethically responsible behavior enhances trust and maintains a positive reputation. Negligence can damage a company's reputation, erode consumer trust, and result in legal consequences. Thus, ethical considerations directly influence a business's long-term success and relationship with stakeholders.

Social Responsibility of the Firm



Globalisation and Extended Supply Chains

- Globalisation has led to the creation of extended supply chains through trade relations, foreign direct investment (FDI), and outsourcing.
- Multinational Enterprises (MNEs) engage with multiple countries for supply and production, introducing both risks and responsibilities.
- **Risks in global supply chains:**
 - Fragility of key suppliers and transport disruptions are significant risks.
 - The COVID-19 pandemic highlighted the precariousness of global supply chains, prompting companies to reconsider their strategic approaches.



[Picture Source](#)

Theories of CSR and Their Implications

- **The role of companies in society:**
 - Business strategists debate the company's role in society, now widely accepted to extend beyond purely economic functions.
 - Theories of CSR address the social responsibilities of companies, often referencing stakeholder groups and society at large.
- **CSR and stakeholder theory:**
 - CSR theories share common ground with stakeholder theories, focusing on groups of people, their interests, and their impacts on the company.
 - Stakeholder theory is seen as more tangible, addressing the practical impacts on specific groups.

Comparing Different Approaches to CSR

Weak CSR

- Focuses on philanthropic activities as an adjunct to business operations.
 - Charitable giving, where companies "give back" to society after generating profits
- Companies engage in CSR when it enhances reputation, weighing costs against benefits.
- Often linked to corporate citizenship, which may narrowly interpret obligations (e.g., obeying the letter, not the spirit, of the law).

Strong CSR

- Envisions a more profound civic role for companies in the community, aligned with CSR in practice.
- Political CSR: Links companies to the democratic process, advocating for civic ethics and normative responsibilities.
- Critics argue that strong CSR remains idealistic, especially given companies' active roles in lobbying and political funding.

Carroll's Four-Dimensional CSR Pyramid

(Carroll, 1991)

- **Philanthropic responsibility:** Charitable contributions, seen as desirable but less critical.
- **Ethical responsibility:** Adherence to ethical norms and exceeding legal requirements.
- **Legal responsibility:** Compliance with laws and regulations, going beyond minimal standards.
- **Economic responsibility:** Foundation of the pyramid; companies must be profitable.



CSR as a Source of Competitive Advantage

Stakeholder-driven CSR:

- Growing demand for CSR from various stakeholder groups, driven by concerns such as climate change.
- CSR as a criterion in evaluating corporate performance.
- CSR can be aligned with business strategy, offering differentiation and competitive advantage.
- The business case for CSR considers corporate reputation and the strategic benefits of CSR practices.
- Examples of CSR approaches:
 - Products made from sustainable resources (e.g., recycled materials).
 - Organic food production and other CSR-related processes.
 - CSR-focused advertising (e.g., dolphin-free tuna labels).

Third-Party Verification and CSR Challenges

- **Third-party verification:**
 - Third-party certification provides assurance to stakeholders (e.g., RSPO for sustainable palm oil, Fairtrade Foundation for fair trade products).
 - Challenges with third-party certification:
 - RSPO example: Aimed at sustainable palm oil production but criticised for not fully ensuring sustainability.
 - Fairtrade Foundation: Supports sustainable agriculture and fair returns for farmers, popular with consumers for products like coffee and chocolate.
- **Corporate in-house schemes:**
 - Trend of large companies moving away from third-party verification to create in-house CSR schemes.
 - Concerns about the lack of independent criteria and potential consumer confusion due to varying corporate logos.



Sustainability Reporting

- **Role of Sustainability Reporting:**

- Increasingly integral to MNEs' CSR strategies, focusing on social and environmental impacts.
- Often categorised under Environmental, Social, and Governance (ESG) Reporting, which provides a broad, non-financial overview.

- **ESG reporting:**

- Environmental: Climate change, resource management, pollution.
- Social: Labour practices, community impact, human rights.
- Governance: Corporate governance, ethical behaviour, transparency.

- **Recent trends:**

- Movement towards subsuming ESG into Sustainability Reporting.
 - Focus mainly on environmental and social categories, aligned with the UN's Sustainable Development Goals (SDGs).



[Picture Source](#)

End of Lecture

Next week:

The Sustainability Environment of Business:
Sustainable Business Practices and Innovations



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