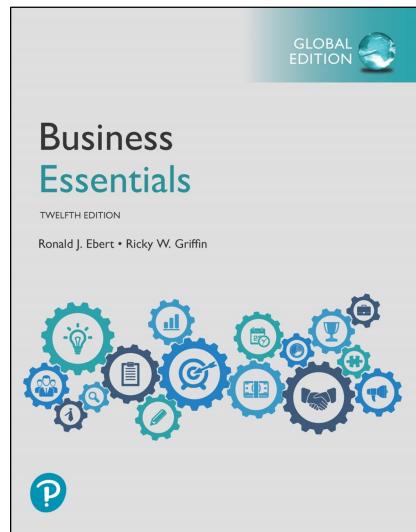


Business Essentials

Twelfth Edition, Global Edition



Chapter 2

Understanding Business Ethics and Social Responsibility

If this PowerPoint presentation contains mathematical equations, you may need to check that your computer has the following installed:

- 1) MathType Plugin
- 2) Math Player (free versions available)
- 3) NVDA Reader (free versions available)

Introduction (1 of 2)

- 70% of the world's cacao beans come from small farms throughout the West African nations.
- *Fair trade* refers to programs designed to ensure that export-dependent farmers in developing countries receive fair prices for their crops.



Business practices today are under more scrutiny than ever before. Business owners and managers are often torn between doing what makes sense for the bottom line (such as increasing profit) versus doing what makes sense for general social welfare.

Introduction (2 of 2)

- **In this chapter, we'll look at ethics and social responsibility—**
 - what they mean
 - how they apply to environmental issues and to a firm's relationships with its customers, employees, and investors
 - approaches to social responsibility
 - steps businesses must take to implement social responsibility programs



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Learning Objectives (1 of 2)

- 1. Explain** how individuals develop their personal codes of ethics and why ethics are important in the workplace.
- 2. Distinguish** social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.
- 3. Show** how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.

Learning Objectives (2 of 2)

- 4. Identify** four general approaches to social responsibility and note the role of social responsibility in small business.
- 5. Explain** the role of government in social responsibility in terms of how governments and businesses influence each other.
- 6. Discuss** how businesses manage social responsibility in terms of both formal and informal dimensions and how organizations can evaluate their social responsibility.

Ethics in the Workplace (1 of 2)

- **Ethics**

- beliefs about what is right and wrong or good and bad in actions that affect others

- **Business ethics**

- refers to ethical or unethical behaviors by employees in the context of their jobs



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Ethics are beliefs about what's right and wrong or good and bad. An individual's values and morals, plus the social context in which his or her behavior occurs, determine whether behavior is regarded as ethical or unethical.

Business ethics refers to ethical or unethical behavior by employees and managers in the context of their jobs.

Ethics in the Workplace (2 of 2)

- **Ethical behavior**

- behavior that conforms to individual beliefs and social norms about what's right and good

- **Unethical behavior**

- behavior that conforms to individual beliefs and social norms about what is defined as wrong and bad



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Ethical behavior is behavior that conforms to individual beliefs and social norms about what's right and good.

Unethical behavior is behavior that conforms to individual beliefs and social norms about what is defined as wrong and bad.

Business and Managerial Ethics

- **Managerial Ethics**

- standards of behavior that guide individual managers in their work
 - Behavior toward Employees
 - Behavior toward the Organization
 - Behavior toward Other Economic Agents



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All businesses regardless of their size, location, or mission operate within a larger external environment. This external environment consists of everything outside an organization's boundaries that might affect it.

The external environment plays a major role in determining the success or failure of any organization. Managers must have a complete and accurate understanding of their environment and then strive to operate and compete within it.

Assessing Ethical Behavior

- 1.** Gather the relevant factual information.
- 2.** Analyze the facts to determine the most appropriate moral values.
- 3.** Make an ethical judgment based on how right or wrong the proposed activity or policy is.

Ethical Norms (1 of 2)

1. Utility

- Does a particular act optimize the benefits to those who are affected by it? (That is, do all relevant parties receive “fair” benefits?)

2. Rights

- Does it respect the rights of all individuals involved?



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To fully assess the ethics of specific behavior, we need a more complex perspective. Ethical norms also come into play. Consider four such norms and the issues they entail:

- 1) Utility: Does a particular act optimize the benefits to those who are affected by it? (That is, do all relevant parties receive “fair” benefits?)
- 2) Rights: Does it respect the rights of all individuals involved?

Ethical Norms (2 of 2)

3. Justice

- Is it consistent with what's fair?

4. Caring

- Is it consistent with people's responsibilities to each other?

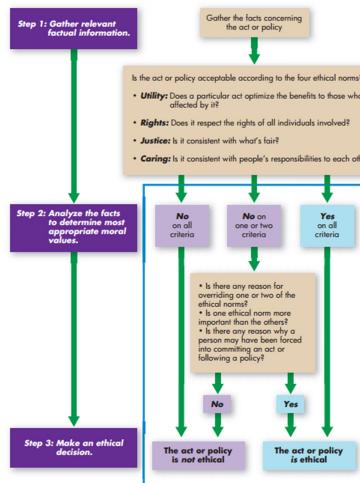


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3) Justice: Is it consistent with what's fair?

4) Caring: Is it consistent with people's responsibilities to each other?

Model of Ethical Judgment Making



Company Practices and Business Ethics

Two of the most common approaches to formalizing top management commitment to ethical business practices:

- Adopting written codes
- Instituting ethics programs



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Many companies have written codes that formally announce their intent to do business in an ethical manner. The number of such companies has risen dramatically in the last three decades, and today almost all major corporations have written codes of ethics.

Core Principles and Organizational Values

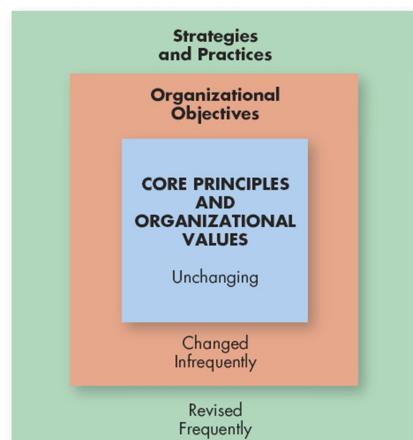


FIGURE 2.2 Core Principles and Organizational Values

Social Responsibility (1 of 2)

- **Social responsibility**

- refers to the overall way in which a business attempts to balance its commitments to relevant groups and individuals in its social environment



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Ethics affect individual behavior in the workplace. Social responsibility is a related concept that addresses the overall way in which a business attempts to balance its commitments to relevant groups and individuals in its social environment.

Social Responsibility (2 of 2)

- **Organizational Stakeholders**

- those groups, individuals, and organizations that are directly affected by the practices of an organization and who therefore have a stake in its performance



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Organizational stakeholders, who are groups, individuals, and organizations that are directly affected by the practices of an organization and, therefore, have a stake in its performance.

Major Corporate Stakeholders

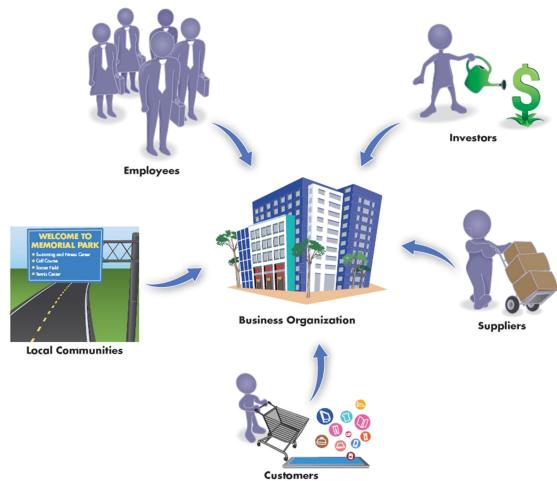


FIGURE 2.3 Major Corporate Stakeholders

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The Stakeholder Model of Responsibility (1 of 2)

Most companies that strive to be responsible to their stakeholders concentrate first and foremost on five main groups:

- Customers
- Employees
- Investors
- Suppliers
- Local communities where they do business



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The Stakeholder Model of Responsibility (2 of 2)

- **Customers**

- Treat customers fairly and honestly

- **Employees**

- Treat employees fairly and respect their dignity and basic human needs

- **Investors**

- Follow proper accounting procedures; provide information to shareholders about financial performance



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Businesses that are responsible to their customers strive to treat them fairly and honestly. They also charge fair prices, honor warranties, meet delivery commitments, and stand behind the quality of the products they sell.

Businesses that are socially responsible in their dealings with employees treat workers fairly, make them a part of the team, and respect their dignity and basic human needs.

To maintain a socially responsible stance toward investors, managers should follow proper accounting procedures, provide appropriate information to shareholders about financial performance, and manage the organization to protect shareholder rights and investments.

Responsibility toward Customers

- **Consumer rights**

- Consumerism – social activism dedicated to protecting the rights of consumers in their dealings with businesses

- **Unfair pricing**

- Collusion – two or more firms collaborate on such wrongful acts as price fixing
 - Price gouging

Responsibility toward Employees (1 of 2)

- Provide opportunities to balance work and life pressures and preferences
- Help employees maintain job skills
- Treat terminated or laid-off employees with respect and compassion

Responsibility toward Employees (2 of 2)

- A company that provides its employees with equal opportunities without regard to race, sex, or other irrelevant factors is meeting both its legal and its social responsibilities

The Stakeholder Model of Responsibility

- **Suppliers**

- Create mutually beneficial partnership arrangements with suppliers

- **Local and International Communities**

- Involvement in programs and charities



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Businesses and managers should also manage their relations with suppliers with care. For example, it might be easy for a large corporation to take advantage of suppliers by imposing unrealistic delivery schedules and reducing profit margins by constantly pushing for lower prices.

Most businesses try to be socially responsible to their local communities. They may contribute to local programs, such as Little League baseball, get actively involved in charitable programs, such as the United Way, and strive to simply be good corporate citizens by minimizing their negative impact on communities.

Contemporary Social Consciousness

- **The Concept of Accountability**

- The expectation of an expanded role for business in protecting and enhancing the general welfare of society



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Responsibility toward the Environment

- Air pollution
- Water pollution
- Land pollution
 - Toxic waste disposal
 - Recycling



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Air pollution is a result of several factors combining to contribute to lower air quality. Carbon monoxide emitted by cars contributes to air pollution, as do smoke and other chemicals produced by manufacturing plants.

Water becomes polluted primarily from chemical and waste dumping. For years, businesses and cities dumped waste into rivers, streams, and lakes with little regard for the consequences.

Two key issues characterize land pollution. The first is how to restore the quality of land that has already been polluted; the second problem is the prevention of future contamination.

Consumerism

- **Consumerism**

- a form of social activism dedicated to protecting the rights of consumers in their dealings with businesses

- **Collusion**

- illegal agreement between two or more companies to commit a wrongful act



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Consumerism is a form of social activism dedicated to protecting the rights of consumers in their dealings with businesses.

Interfering with competition can take the form of illegal pricing practices. Collusion occurs when two or more firms collaborate on such wrongful acts as price fixing.

The Elements of Green Marketing

Table 2.1 The Elements of Green Marketing

- Production Processes Businesses, such as Ford Motors and General Electric, modify their production processes to limit the consumption of valuable resources such as fossil fuels by increasing energy efficiency and reducing their output of waste and pollution by cutting greenhouse gas emissions.
- Product Modification Products can be modified to use more environmentally friendly materials, a practice S. C. Johnson encourages with its Greenlist of raw materials classified according to their impact on health and the environment. Committed to only using the safest materials on this list, S. C. Johnson eliminated 1.8 million pounds of volatile organic compounds from its glass cleaner Windex.²⁴
- Carbon Offsets are used by some companies that are committed to replenishing, repairing, or restoring those parts of the environment that are damaged by their operations, especially those that produce carbon dioxide (CO₂). In 2007, Volkswagen began a program of planting trees in the so-called VW Forest in the Lower Mississippi Alluvial Valley to offset the CO₂ emissions of every car they sell.²⁵
- Packaging Reduction, for example, reducing and reusing materials used in packaging products, is another important strategy of green marketing, which Starbucks has pioneered. In 2004, the FDA gave the coffee retailer the first-ever approval to use recycled materials in its food and beverage packaging. Starbucks estimates that using cups composed of 10 percent recycled fibers reduces its packaging waste by more than 5 million pounds per year.²⁶
- Sustainability, using renewable resources and managing limited resources responsibly and efficiently, is an important goal for any business pursuing a green policy. For example, Whole Foods Market is committed to buying food from farmers who use sustainable agriculture practices that protect the environment and agricultural resources, such as land and water.

Consumer Bill of Rights



FIGURE 2.4 Consumer Bill of Rights

The first formal declaration of consumer rights protection came in the early 1960s, when President John F. Kennedy identified four basic consumer rights.

Responsibility toward Investors

- **Insider trading**
 - using confidential information to gain from the purchase or sale of stocks
- **Misrepresentation of finances**



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Unethical managers might project profits in excess of what they actually expect to earn, hide losses and/or expenses in order to boost paper profits, or slant financial reports to make the firm seem stronger than is really the case. In 2002, the U.S. Congress passed the *Sarbanes-Oxley Act*, which requires an organization's chief financial officer to personally guarantee the accuracy of all financial reporting.

Approaches to Social Responsibility (1 of 3)



FIGURE 2.5 Spectrum of Approaches to Corporate Social Responsibility

As Figure 2.5 illustrates, the four stances that an organization can take concerning its obligations to society fall along a continuum, ranging from the lowest to the highest degree of socially responsible practices.

Approaches to Social Responsibility (2 of 3)

- **Obstructionist Stance**

- involves doing as little as possible and may involve attempts to deny or cover up violations

- **Defensive Stance**

- company meets only minimum legal requirements in its commitments to groups and individuals in its social environment



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Organizations that take an obstructionist stance to social responsibility usually do as little as possible to solve social or environmental problems, have little regard for ethical conduct, and will go to great lengths to deny or cover up wrongdoing.

Organizations that take a defensive stance will do everything that is legally required, including admitting to mistakes and taking corrective actions, but nothing more.

Approaches to Social Responsibility (3 of 3)

- **Accommodative Stance**

- a company, if specifically asked to do so, exceeds legal minimums in its commitments to groups

- **Proactive Stance**

- a company actively seeks opportunities to contribute to the well-being of groups and individuals in its social environment



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A firm that adopts an accommodative stance meets and, in certain cases, exceeds its legal and ethical requirements. Such firms will agree to participate in social programs if solicitors convince them that given programs are worthy of their support.

Social Responsibility and the Small Business

- For small businesses, ethical issues are questions of individual ethics
- But in questions of social responsibility, they must ask themselves if they can afford a social agenda



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Top 25 Corporate Foundations (1 of 3)

Rank	Name/(State)	Total Giving	As of Fiscal Year End Date
1	Novartis Patient Assistance Foundation, Inc. (NJ)	\$456,825,176	12/31/2014
2	Wells Fargo Foundation (CA)	189,380,780	12/31/2014
3	The Bank of America Charitable Foundation, Inc. (NC)	175,729,430	12/31/2014
4	The Wal-Mart Foundation, Inc. (AR)	168,582,621	01/31/2014
5	The JPMorgan Chase Foundation (NY)	130,855,483	12/31/2013
6	GE Foundation (CT)	108,401,652	12/31/2014
7	The Coca-Cola Foundation, Inc. (GA)	90,518,700	12/31/2014
8	Citi Foundation (NY)	78,000,000	12/31/2014
9	ExxonMobil Foundation (TX)	975,212,563	12/31/2014



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Top 25 Corporate Foundations (2 of 3)

Rank	Name/(State)	Total Giving	As of Fiscal Year End Date
10	Bayer U.S. Patient Assistance Foundation (PA)	58,474,547	11/30/2014
11	George Lucas Family Foundation (CA)	55,486,655	12/31/2014
12	Caterpillar Foundation (IL)	49,640,075	12/31/2014
13	The PNC Foundation (PA)	48,597,927	12/31/2014
14	Johnson & Johnson Family of Companies Foundation (NJ)	46,445,669	12/31/2013
15	The UPS Foundation (GA)	42,895,860	12/31/2013
16	MetLife Foundation (NY)	41,068,034	12/31/2014
17	Intel Foundation (OR)	39,047,597	12/31/2014



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Top 25 Corporate Foundations (3 of 3)

Rank	Name/(State)	Total Giving	As of Fiscal Year End Date
18	Publix Super Markets Charities (FL)	38,602,791	12/31/2014
19	The Goldman Sachs Foundation (NY)	37,245,807	12/31/2014
20	Emerson Charitable Trust (MO)	36,181,743	09/30/2014
21	The Prudential Foundation (NJ)	34,835,423	12/31/2014
22	General Motors Foundation, Inc. (MI)	30,821,026	12/31/2014
23	The Merck Company Foundation (NJ)	30,691,387	12/31/2014
24	Verizon Foundation (NJ)	30,628,914	12/31/2014
25	Ford Motor Company Fund (MI)	30,222,388	12/31/2014



Pearson

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The Government and Social Responsibility

- **Regulation**

- the establishment of laws and rules that dictate what organizations can and cannot do
- Direct
- Indirect



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The government directly influences organizations through regulation, the establishment of laws and rules that dictate what organizations can and cannot do. Regulation usually evolves from social beliefs about how businesses should conduct themselves.

Other forms of regulation are indirect. For example, the government can indirectly influence the social responsibility of organizations through its tax codes. In effect, the government can influence how organizations spend their social responsibility dollars by providing greater or lesser tax incentives.

How Organizations Influence Government

- **Political Action Committees (PACs)**

- special organizations created to solicit money and then distribute it to political candidates

- **Lobbying**

- the use of persons or groups to formally represent an organization or group of organizations before political bodies



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Companies themselves cannot legally make direct donations to political campaigns, so they influence the government through *political action committees*. Political action committees (PACs) are special organizations created to solicit money and then distribute it to political candidates.

Lobbying, or the use of persons or groups to formally represent an organization or group of organizations before political bodies, is also an effective way to influence the government.

Formal Organizational Dimensions (1 of 2)

- Legal Compliance
 - the extent to which the organization conforms to local, state, federal, and international laws
- Ethical Compliance
 - the extent to which the members of the organization follow basic ethical (and legal) standards of behavior



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Legal compliance is the extent to which the organization conforms to local, state, federal, and international laws. The task of managing legal compliance is generally assigned to the appropriate functional managers.

Ethical compliance is the extent to which the members of the organization follow basic ethical (and legal) standards of behavior.

Formal Organizational Dimensions (2 of 2)

- Philanthropic giving
 - the awarding of funds or gifts to charities or other worthy causes



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Finally, philanthropic giving is the awarding of funds or gifts to charities or other worthy causes. Target Corporation routinely gives 5 percent of its taxable income to charity and social programs. Omaha Steaks gives more than \$100,000 per year to support the arts.

Evaluating Social Responsibility

- **Corporate Social Audit**

- systematic analysis of a firm's success in using funds earmarked for meeting its social responsibility goals



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Some businesses occasionally conduct a corporate social audit, a formal and thorough analysis of the effectiveness of a firm's social performance. A task force of high-level managers from within the firm usually conducts the audit. It requires that the organization clearly define all of its social goals, analyze the resources it devotes to each goal, determine how well it is achieving the various goals, and make recommendations about which areas need additional attention.

Applying What You've Learned (1 of 2)

1. Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.
2. Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.
3. Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.



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Applying What You've Learned (2 of 2)

- 4.** Identify four general approaches to social responsibility and note the role of social responsibility in small business.
- 5.** Explain the role of government in social responsibility in terms of how governments and businesses influence each other.

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