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chapter

Ethics in Business

Better Business

Solomon (Contributing Editor) • Poatsy • Martin

Learning Objectives

1. What are **ethics** and different ethical systems?
2. How does a person create a personal code of ethics?
3. How might **personal ethics** play a role in the workplace?
4. How can you evaluate a company's ethical code using available resources, such as a **mission statement**?
5. How do a company's policies and decisions affect its achievement of **corporate social responsibility (CSR)**?
6. What challenges does a company face in balancing the demands of social responsibility with successful business practices?
7. What is **legal compliance**, and how does it affect ethical conduct?
8. What strategies can a company use to recover from ethical lapses?
9. How can companies apply ethical standards to create new business opportunities?
10. What approaches can a company use to develop and maintain an ethical environment?

Ethics

- What exactly are ethics?
  - Do all people share the same ethics?
- Ethical systems
  - Moral relativism
  - Situational ethics
  - Judeo-Christian ethics
- What is amoral behavior?

Determining Your Code of Personal Ethics

Determining Your Code of Personal Ethics

	Question	Examples
Base Character	What characteristics would others use to describe you?	Honest, reliable, kind, self-centered, aggressive
Beliefs	What are the most important beliefs you hold and use to make decisions in your life?	"Nice guys finish last." "Hard work always pays off."
Behavior	How do your relationships reflect your character and beliefs?	I have mostly shallow relationships because I tend not to follow through on my commitments. I have many deep, long-lasting friendships because I value friendship and work to retain my friends.
Why	Where did your beliefs and your view of your character come from?	Family, religion, movies, personal experiences, etc.

Personal Ethics in a Business Environment

- What if you are asked to act against your ethics?
- What if you unknowingly do something "wrong"?
- What if you knowingly do something unethical or even illegal?

"Interesting business proposal. We'll have to run it by illegal."

Pricing Fixing

- Occurs when a group of companies agree to set a product's price
- Mark Whitacre, a senior executive with the agricultural giant Archer Daniels Midland (ADM), blew the whistle on ADM's multinational price-fixing scheme
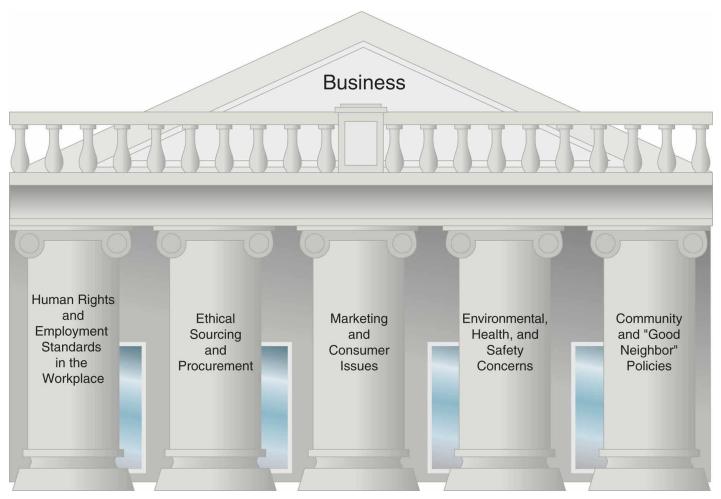
Business Ethics and Social Responsibility

- How can you examine a company's ethics?

  - Companies document their philosophies, often through:

    - A code of ethics—A statement of the company's commitment to ethical practices

    - A mission statement—Defines the core purpose of an organization

> **"Our mission is to enable people and businesses throughout the world to realize their full potential."**
> **Can you guess this company?**

Corporate Social Responsibility (CSR)

Can a Company Really Be Socially Responsible?

- Economist Milton Friedman said, "Asking a corporation to be socially responsible makes no more sense than asking a building to be."

- How does a company balance CSR and the profits their stockholders expect?
    - What happens to CSR when the company isn't doing well?
    - Can CSR benefit a company financially?

Benefits of CSR

- A positive reputation in the marketplace
- Strong recruitment and talent retention
- Increased efficiency and decreased scrap and waste
- Increased sales via product innovations and environmentally and ethically conscious labeling

Images courtesy of Whole Foods

Measuring CSR

- Social audits
- Ratings and rankings
  - Calvert Company
    - Intel
  - Fortune's 10 Most-Admired Companies
    - Apple
- Self-reporting
- Corporate philanthropy
  - Donating profits or resources
    - Target

The Challenges of CSR

- Balancing the demands of social responsibility with successful business practices
  - Many conflicting demands pose numerous ethical challenges such as:
    - Making life-saving drugs available to the world's poor.
    - Conducting business in an environmentally sound manner.

The Effects of CSR on Society

- Environmental
  - Local and global
- Economic
  - Product availability, price and quality
  - Business sustainability
- Employee morale
  - Advancement
  - Work environment
  - Values

The Effects of Individuals on CSR

- Can you affect how businesses operate ethically?

- You can affect:

  - Your own ethical behavior

  - Who you do business with

  - Who you invest in

    - Socially responsible investing

  - Who you work for

Legal Regulations and Compliance

- Specific laws are created governing the products or process of a specific industry
- Example: Consumer Bill of Rights (1962)
  - Right to safe products
  - Right to choose purchases
  - Right to information
  - Right to be heard
- Legal compliance
  - Ensuring adherence to legal regulations

Violating Ethics & the Law: The Example of Enron

- Seventh largest U.S. company at its zenith
- Had a written code of ethics including social and environmental values
- In 2001, fraudulent finance practices surfaced and the company went bankrupt
  - Key officers found guilty of fraud and other charges
  - Arthur Andersen, Enron's accounting firm, convicted of obstruction of justice and the firm closed
- Sarbanes/Oxley Act passed in 2002, with strict corporate finance requirements and penalties

Recovering from Weak Ethical Conduct

- Whistleblower

- Common strategies to recover
  1. Lead by strong ethical example
  2. Empower all employees to make ethical decisions and to report unethical situations
  3. Redesign internal rewards to reward responsible and ethical behavior

Creating New Markets with an Ethical Focus

- Examples
  - Offering clean fuel
  - Creating medical vaccines
  - Fighting censorship
  - Going green
    - Sustainability

BagMonster image courtesy of ChicoBag Co

What other examples can you think of?

Developing an Ethical Environment

1. Create and communicate a meaningful and current mission statement

2. Set a clear example by management

3. Offer orientation programs on company ethics to new employees

4. Provide ongoing ethics training programs

Tips for Maintaining an Ethical Environment

- Develop a strict code of ethics and ensure it is being followed.

- Create a hotline for employees to anonymously report violations.

- Set the tone that the company is serious about ethics.

- Communicate regularly about acceptable and unacceptable business practices.