CHAPTER 2

Business Ethics and Social Responsibility

Chapter Summary: Key Concepts

Concern for Ethical and Societal Issues

**Business ethics** Standards of conduct and moral values governing the actions and decisions in the work environment.

**Social responsibility** The enhancement of society’s welfare through philosophies, policies, procedures, and actions.

The Contemporary Ethical Environment

**Business ethics in the spotlight** Companies realize that they have to work harder to earn the trust of the general public. This movement toward corporate social responsibility should benefit all— consumers, the environment, and the companies themselves.

**Sarbanes-Oxley Act of 2002** Federal regulation designed to deter and punish corporate accounting fraud and corruption and to protect the interests of workers and shareholders through enhanced financial disclosures, criminal penalties, and safeguards.

**Individuals make a difference** As executives, managers, and employees demonstrate their personal ethical principles, or lack of principles, the expectations of those who work for and with them can change.

**Development of individual ethics** Individuals develop ethical standards in three stages. In the first, preconventional stage, individuals mainly

look out for themselves and follow rules only out of fear. In the second, conventional stage, individuals are aware of and act in response to their obligations to others. In the third, postconventional stage, individuals follow personal principles for resolving dilemmas, considering personal, group, and societal interests.

**On-the-job ethical dilemmas** Common business ethical dilemmas include honesty and integrity in business dealings, whistle-blowing, the interplay between loyalty to the organization and truthfulness in business relationships, and conflict of interest.

How Organizations Shape Ethical Conduct

**Ethical awareness** Ethical awareness can be heightened through the development of a code of conduct, which is a formal statement that defines how an organization expects its employees to resolve ethical questions.

**Ethical education** Employees also need to be educated in order to develop ethical reasoning abilities, including the skill to evaluate options and spot ethical issues in day-to-day decisions.

**Ethical action** Structures and approaches that allow decisions to be turned into ethical actions. Examples include company ethics hotlines, a set of ethics questions to guide decision making, and ethics compliance officers.

**Ethical leadership** Demonstration of ethical behavior by executives that can affect the firm’s stakeholders: customers, investors, employees, and the public.

Acting Responsibly to Satisfy Society

**Social responsibility** Management’s acceptance of the obligation to consider profit, consumer satisfaction, and societal well-being of equal value in evaluating the firm’s performance.

**Responsibilities to the general public** These responsibilities include reducing dangers and promoting public health, protecting the environment, and developing the quality of the workforce. Many would also argue that businesses should support charities and social causes through corporate philanthropy.

**Responsibilities to customers** Consumerism is the idea that businesses should consider and safeguard certain customer rights. Businesses are obligated to protect the consumers’ right to be safe, to be informed, to choose, and to be heard.

**Responsibilities to employees** In addition to pay, employees today expect a safe working environment, consideration of quality of life issues like family leave, and equal opportunity on the job. The workplace should also be free of age discrimination, sexual harassment, and sexism.

**Responsibilities to investors** Businesses must be honest in reporting their profits and

**and the financial community** financial performance to avoid misleading investors. When firms fail in meeting these responsibilities thousands of investors, employees and customers can suffer. Therefore, government agencies exist to ensure that businesses follow proper accounting practices and to investigate alleged fraud and other financial misdeeds.

Business Vocabulary

|  |  |
| --- | --- |
| business ethics | pollution |
| code of conduct | product liability |
| conflict of interest | recycling |
| consumerism | Sarbanes-Oxley Act of 2002 |
| corporate philanthropy | sexism |
| discrimination | sexual harassment |
| Equal Employment Opportunity Commission (EEOC) | social audits |
| family leave | social responsibility |
| green marketing | stakeholders |
| integrity | sustainable |
|  | whistle-blowing |

Application of Vocabulary

Select the term from the list above that best completes the statements. Write that term in the space provided.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the term used to describe a firm’s formal examination of its social responsibility programs.

2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the tainting or destroying of the natural environment.

3. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the federal commission created to aid in the elimination of job discrimination while increasing job opportunities for women and minorities.

4. A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a formal statement that defines how the organization expects and requires employees to resolve ethical questions.

5. Employers with 50 or more employees must provide \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, an unpaid leave of up to 12 weeks to deal with new births, adoptions, or illness of workers or their relatives.

6. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the demand that business give proper consideration to consumer wants and needs when making decisions, and is based on the belief that consumers have certain rights.

7. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_is reprocessing of reusable materials.

8. Employees should be careful to avoid the appearance of any \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that is, any situation where a business decision benefiting one person has the potential to harm another person.

9. Many argue that social responsibility to the general public means businesses should  
give back to the communities in which they earn profits through \_\_\_\_\_\_\_\_\_\_  
\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

10. The responsibility that manufacturers face for injuries or damages caused by their products is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

11. Environmental issues such as renewable sources of clean energy and developing \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ agriculture are major environmental concerns for firms wishing to protect the environment.

12. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ has occurred when an employee discloses to the media or government authorities any suspected illegal, immoral, or unethical practices of the organization.

13. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is demonstrated by people who adhere to deeply felt ethical principles in business situations.

14. Congress enacted the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to further protect investors from unethical accounting practices. Among other things, this law requires a special oversight board to regulate public accounting firms that audit the financial records of corporations.

15. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can include unwelcomed sexual advances, requests for sexual favors as a condition of employment or promotion, and/or the creation of what feels like a “hostile” work environment due to unwelcomed flirting, lewd comments, or obscene jokes.

16. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a type of discrimination in which people are treated differently in the workplace due to their gender.

17. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ deals with standards of conduct and moral values that arise in any work environment.

18. The biased treatment of a job candidate or employee in the workplace is known as **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**.

19. In addition to making a profit, there are obligations businesses have to the wider  
society, known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

20. Companies who work to promote environmentally safe products and production methods are engaged in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

21. Customers, employees, and investors are example of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Analysis of Learning Objectives

**Learning Objective 2.1:** Explain the concern for ethical and societal issues.

True or False

1. \_\_\_\_\_ Social responsibility refers to management’s consideration of the social as well as the economic effects of its decisions.

2. \_\_\_\_\_ Deciding what is right or wrong in business is generally a clear-cut choice.

3. \_\_\_\_\_ Social responsibility and ethical conduct generally cost more than they create in business value.

4. \_\_\_\_\_ Codes of conduct and ethical standards are playing an increasingly important role in the operation of today’s firms.

5. \_\_\_\_\_ Employees, customers, government, and the general public all have a stake in the performance of modern organizations.

**Learning Objective 2.2:** Describe the contemporary ethical environment.

Multiple Choice

1. Individual ethics in the workplace are influenced by:

a. ethical training.

b. all of these answer choices are correct.

c. behaviors of managers.

d. the organization’s culture.

2. A firm’s ability to behave ethically depends on:

a. the ethical values of the firm’s executives.

b. the ethical values of the firm’s employees.

c. a climate within the organization that promotes ethical conduct.

d. all of these answers are correct.

3. Unrealistic goals set by managers:

a. can promote unethical behavior.

b. is common among U.S. firms.

c. makes the firm more competitive.

d. all of these answers are correct.

4. Managers who behave unethically:

a. influence employees to do the same.

b. are commonly reported by employees.

c. enforce the code of conduct.

d. are more likely to be promoted.

**Learning Objective 2.3:** Discuss how organizations shape ethical conduct.

Fill-in

1. In the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ stage of ethical development, individuals primarily consider their own needs, desires, and personal consequences in making ethical decisions.

2. An individual who can move beyond self-interest and duty, who considers the needs of the wider society, and who can employ ethical principles in a variety of situations, has attained the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ stage of ethical development.

3. Those who are aware of and respond to their duty to others have achieved the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ stage of ethical development.

True or False

4. \_\_\_\_\_\_ Top management plays a crucial role in developing an organizational culture that encourages ethical behavior.

5. \_\_\_\_\_\_ Most companies today don’t bother with a code of conduct.

6. \_\_\_\_\_\_ A company’s code of conduct is informal, but employees are still expected to adhere to them.

7. \_\_\_\_\_\_ A firm whose managers set unrealistic goals for employees invites unethical behavior.

**Learning Objective 2.4:** Describe how businesses can act responsibly to satisfy society.

True or False

1. \_\_\_\_\_\_ Social audits are formal procedures that identify and evaluate all company activities that relate to social issues

2. \_\_\_\_\_\_ Quantitative economic measures such as employment levels, sales, and profits are irrelevant in evaluating a firm’s social performance.

3. \_\_\_\_\_\_ Conducting a social audit can help a firm measure its progress in meeting social responsibility objectives.

4. \_\_\_\_\_\_ Subway representative Jared Fogle exemplifies how public health issues are part of corporation’s growing concern for social responsibilities.

5. \_\_\_\_\_\_ Discarded electronics are a major contributor to today’s landfill waste.

6. \_\_\_\_\_\_ American firms have found a significant competitive advantage in developing a culturally diverse and highly skilled workforce.

7. \_\_\_\_\_\_ In our current high-skill work environment, businesses need to encourage education and skill development among their employees.

8. \_\_\_\_\_\_ As a way to practice corporate philanthropy, organizations often require their employees to volunteer during off hours.

9. \_\_\_\_\_\_ The EEOC was created to increase job opportunities for all members of society and to help end discriminatory practices in employment.

10. \_\_\_\_\_\_ Employers with 50 or more employees must provide unpaid leave annually for any employee who wants time off for the birth or adoption of a child; to become a foster parent; or to care for a seriously ill relative, spouse, or self if he or she has a serious health condition or injury.

11. \_\_\_\_\_\_ Sexism, or discrimination based solely on a person’s gender, has been completely eliminated in today’s global business environment.

12. \_\_\_\_\_\_ Businesses have both a legal and an ethical requirement to eliminate sexual harassment in the workplace.

13. \_\_\_\_\_\_ Corporate philanthropy encompasses all efforts corporations take in order to give back to the communities in which they conduct business.

**Learning Objective 2.5:** Explain the ethical responsibilities of businesses to investors and the financial community.

True or False

1. \_\_\_\_\_\_ Because investors are risk takers, there are no ethical requirements for managers to protect investor interests.

2. \_\_\_\_\_\_ Investors who believe management has not dealt honestly with them have legal recourse.

3. \_\_\_\_\_\_ The Office of Internet Enforcement protects the rights of businesses to promote their products online in any manner they choose.

4. \_\_\_\_\_\_ The Securities and Exchange Commission is the federal agency responsible for investigating alleged unethical or illegal financial behavior of publicly traded firms.

Self Review

True or False

1. \_\_\_\_\_\_ Businesses are responsible for providing information to their consumers regarding any potentially dangerous products.

2. \_\_\_\_\_\_ Social audits measure a firm’s performance relating to such issues as employment practices, environmental responsibility, and philanthropy.

3. \_\_\_\_\_\_ While managers may conduct internal audits on social responsibility, public opinion rarely has any real impact on business practices.

4. \_\_\_\_\_\_ Numerous state and federal laws related to consumerism have been established since President John F. Kennedy addressed the concept in 1962.

5. \_\_\_\_\_\_ Cigarettes and alcoholic beverages are examples of potentially harmful products about which corporations should inform their consumers.

6. \_\_\_\_\_\_ Green marketing targets consumers who care whether or not businesses demonstrate environmental responsibility.

7. \_\_\_\_\_\_ Business ethics deal with the right and wrong actions that arise in any business environment.

8. \_\_\_\_\_\_ A firm must be able to prove that any claim made about the quality or superiority of a good or service has been substantiated.

9. \_\_\_\_\_\_ Under the Sarbanes-Oxley Act, all corporations are required to have a printed code of ethics.

10. \_\_\_\_\_\_ It makes good sense to have all employees aware of the firm’s stance on social and ethical issues.

11. \_\_\_\_\_\_ Education is becoming a smaller indicator of pay rates.

12. \_\_\_\_\_\_ Employers are legally responsible for protecting their employees from the sexual harassment of clients and customers.

13. \_\_\_\_\_\_ Today we find no significant differences between the average pay of men and women.

14. \_\_\_\_\_\_ Programs that increase social responsibility and ethical practices in a firm may be good for public relations, but they generally cost more than they create in economic benefits.

15. \_\_\_\_\_\_ A new shift in the workforce shows that there will soon be more younger people working than those from the baby boomer generation.

Multiple Choice

1. In order to promote ethical behavior in an organization:

a. ethical guidelines should be clearly stated and communicated to employees.

b. all of these answer choices are correct.

c. the organization may design training programs to help employees develop  
ethical reasoning skills.

d. the organization’s structure and business practices should reflect and reinforce  
ethical values.

e. managers must show a personal commitment to ethical values and a willingness  
to enforce them.

2. The agency charged with ensuring the accuracy of financial statements provided by publicly traded companies is the:

a. EPA. c. FTC.

b. EEOC. d. SEC.

3. In a social audit:

a. a firm attempts to measure its own performance relating to social responsibility.

b. outside auditors are called in to evaluate business practices.

c. the FTC audits the ethical practices of a firm.

d. the government estimates the social costs of individual business actions.

4. Business responsibilities to the general public include:

a. dealing with public health issues. c. developing a quality workforce.

b. protecting the environment. d. all of these answer choices are correct.

5. The Family and Medical Leave Act of 1993:

a. requires firms with 50 or more employees to provide up to 12 weeks of unpaid leave for workers who need to attend to family matters.

b. requires firms with 50 or more employees to provide up to 12 weeks of paid leave for workers who need to attend to family matters.

c. affects firms with more than 100 employees.

d. does not include a guarantee that employees will be returned to an equivalent job when they come back to work.

6. Discrimination based on gender:

a. is known as sexual harassment.

b. is known as sexism.

c. is to be expected in a culturally diverse workforce.

d. was outlawed by the Sarbanes-Oxley Act.

7. The federal agency charged with ensuring universal access to jobs and ending  
discrimination in the workplace is the:

a. EPA. c. EEOC.

b. FTC. d. SEC.

8. In the U.S. economy, the social responsibility of a firm is evaluated:

a. by consumers who may patronize or avoid a firm based on its behavior.

b. all of these are methods for evaluating social responsibility.

c. by the firm itself doing a social audit.

d. by outside groups who create and monitor standards of corporate performance.

e. on the basis of the firm’s contribution to economic growth and employment  
opportunities.

9. After graduating from trade school, Ann accepted a position as a mechanic in a shop  
where she is the only woman. After a few months she complained to her supervisor  
about lewd jokes and sexually explicit posters in the workplace. Her supervisor  
should:

a. tell Ann to relax and try to be one of the boys.

b. listen to Ann and help her adjust to the environment.

c. realize that these occurrences can be construed as sexual harassment and need to  
be addressed.

d. realize that women have no place in a work environment that was previously all  
male.

10. In the highest level ethical and moral behavior, the individual is able to move beyond  
mere self-interest and duty and take the larger needs of society into account as well.  
This stage of ethical development is the:

a. preconventional stage. c. metaethical stage.

b. conventional stage. d. postconventional stage.

Application Exercises

The following situations deal with ethical issues in business. Write a short explanation of why you think the participants did or did not act in a socially responsible or ethical manner.

1. Maria is a lawyer and recently hired Brian, a paralegal. She tells Brian that she finds him attractive and offers him an immediate pay raise if he agrees to spend the night at her apartment.

2. A wheelchair-bound secretary is denied a job because the employer has no restroom that can accommodate a wheelchair.

3. Jill is an executive administrator and John is interviewing for the position of assistant administrator. Jill informs John that although she is impressed with his resume and communication skills, she cannot offer him the job because of his commitments with the National Guard, which might put him in a position where he would have to leave for overseas for long periods of time.

4. Patty is the owner of her own small business. She is a smoker, and has always felt free to smoke in her own office. She hires a worker who objects to cigarette smoke in the work environment, since the EPA has identified second-hand smoke as a public health risk.

Short Essay Questions

1. Aside from earning a profit for owners, what responsibilities should business managers have?

2. Describe the role of the Equal Employment Opportunity Commission (EEOC).