

## Chapter 2 Ethics and Social Responsibility: Doing the Right Thing

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### Part One: Learning Objectives

1. Define business ethics and describe the three levels of ethical standards.
2. Determine who is responsible for ethical behavior and why ethical lapses occur.
3. Explain how to establish and maintain high ethical standards.
4. Explain the difference between social entrepreneurs and traditional entrepreneurs.
5. Define social responsibility.
6. Explain the nature of business' responsibility to the environment.
7. Describe business' responsibility to employees.
8. Explain business' responsibility to customers.
9. Discuss business' responsibility to investors.
10. Describe business' responsibility to the community.

*The “Chapter Review” on page 69 summarizes these learning objectives.*

### Part Two: Chapter Outline – At a glance

Introduction

Business Ethics

Key Stakeholders

Three Levels of Ethical Standards

An Ethical Framework

Three Styles of Management

The Benefits of Moral Management

Why Ethical Lapses Occur

Establishing Ethical Standards

Maintaining Ethical Standards

Social Responsibility

Responsibility to the Environment

Responsibility to Employees

Responsibility to Customers

Conclusion

## Part Three: Lesson Plan

### Introduction

An entrepreneur's personal values and beliefs influence the way he or she leads the firm through every decision that is made; every policy written; and every action taken. Values-based leaders do what is right because of their conscience, which dictates what must be done. Firms with these types of entrepreneurs are consistent in their treatment of employees, customers and their interactions with all of society's stakeholders including entities including the government, investors, creditors and others. They link ethical behaviors to organizational outcomes and incorporate social responsibility into needs assessments. They establish ethical behavior and concern for the environment as an integral part of organizational training, and eventually the firm's culture.

Business operates as an institution in our complex and interrelated society. Ethics and social responsibility simply set behavioral boundaries for decision-makers. Ethics is a branch of philosophy that studies and creates theories about the basic nature of right and wrong, duty, obligation or virtue. Social responsibility involves how an organization responds to the needs of the many elements in society including shareholders, lenders, employees, consumers, governmental agencies, and the environment. Because business is allowed to operate in society, it has an obligation to behave in ways that benefit all of society.

### AN ETHICAL PERSPECTIVE

#### Business Ethics

***Business ethics consist of the fundamental moral values and behavioral standards that form the foundation for the people of an organization as they make decisions and interact with stakeholders.***

Business ethics is a sensitive and highly complex issue, but it is not a new one. Ethical theory does inform and evaluate our judgments and actions. Any time we explain why we decided to act as we did, we appeal to certain standards. These standards must be grounded in a deep understanding of ethical values if they are to have any lasting and beneficial effect on how we live.

Business is a human activity. As such, it is subject to moral evaluation, just like any other activity that we engage in. Increasingly success in business requires an understanding of ethical theory. Because business is generally not yet structured to handle these questions and managers have not been trained to do so, there is a demand to find a way to determine what values ought to guide a business and to set up procedures for employees to handle these issues.

Ethical issues and positions are complex. This has caused some to think that moral values are merely the reflection of our personal opinions and feelings, nothing more. However, when one conceives of moral values, clearly there is some apprehension as to whether it is possible for a person in business to master the knowledge necessary to understand ethics. It is important, at this point, to recall Aristotle's advice:

*"We must be content then, in speaking of such subjects and with such premises to indicate the truth roughly and in outline, and in speaking about things which are*

*only for the most part true, and with premises of the same kind, to reach conclusions that are no better. In the same spirit, therefore, should each type of statement be received; for it is the mark of an educated man to look for precision in each class of things just so far as the nature of the subject admits; it is evidently foolish to accept probably reasoning from a Mathematician and to demand from a rhetorician demonstrative proofs.”*

*(Aristotle, Nicomachean Ethics book 1, part 3)*

It is not hard to understand the source of the complexity in explaining our moral values. From childhood onward, our values have been shaped by a variety of direct and indirect influences. However, even in our democratic society where there is a great deal of diversity in religious, social, and moral outlooks, there is a broad consensus concerning certain moral values. This is partly because family, religious and other social institutions have shaped and reinforced these values. However, ethical theories have played an important part in shaping our underlying moral ethos. What is right and what is wrong, what is good and what is bad, and what is required and what is optional in our behaviors has been learned and reinforced. Except for individuals whose rational capabilities have become diminished, people form individual value systems that are reinforced—and sometimes altered—by life’s experiences.

***Discussion: Is Aristotle’s quote relevant today? Why or why not?***

*Expect student to discuss the meaning and application of this excerpt and its relevance in the business world for today.*

**Key Stakeholders**

Entrepreneurs must recognize that actions taken which conflict with society’s ethical standards incur a very high price. The reputation of a business can be harmed severely by the actions of a single employee. Trust, once broken, is difficult to mend. Customers are not likely to do business with a firm with whom they feel treated them in an unethical fashion. In reality, some businesses fail due to being publicly identified as acting in an unethical fashion.

An entrepreneur has a responsibility for a host of stakeholders, from customers to employees and from suppliers to creditors.

**Three Levels of Ethical Standards**

An entrepreneur should communicate to each employee that there are three levels of ethical performance standards. The first are the laws that govern the behaviors of all people in our society.

- ***The law***

As we know, the laws define what we “must not do.” Laws, therefore, set a minimum standard. Simply obeying the law is insufficient as a guide for ethical behavior as ethical behavior requires more.

- ***Organizational policies and procedures***

The second level is the clearly written and inclusive set of organizational policies and procedures that serve as specific guidelines for decision making.

- ***The moral stance employees take when faced with decisions not governed by formal rules***

The ethical stance reflects the values of the entrepreneur. Successful entrepreneurs know that they must begin during the employee's orientation to make absolute clear how they expect every employee to judge right from wrong and good from bad. Employees must know exactly what you expect them to do when faced with an ethical dilemma.

### **IMMORAL, AMORAL, AND MORAL MANAGEMENT?**

#### **Three Styles of Management**

Who is responsible for ethical behavior? Although companies may set ethical standards and offer guidelines for employees, the ultimate decision on whether to abide by ethical principles rests with the individual. Good ethics starts at the top and works its way downward through the entire organization.

The characteristic of the three ethical styles of management include:

- ***Immoral management – driving force is greed.***
- ***Amoral management – does not consider ethical impact on others.***
- ***Moral management – sees the law as a minimum standard of behavior.***

Refer to Table 2.1: Approaches to Business Ethics on page 41 in the text.

#### **The Benefits of Moral Management**

There has been pressure for business leaders to become more proactive in implementing the organizational characteristics of moral management.

#### ***Earning a profit does not conflict with maintaining high ethical standards.***

Entrepreneurs know that these positive organizational practices avoid the extremely damaging effects on the firm's reputation from unethical behaviors.

1. ***Avoid damage to a company's reputation that results from unethical behavior***
2. ***Dealing with diverse stakeholders is easier with a solid ethical foundation.***  
Although the "ethics factor" is intangible, it is both recognized and appreciated by all of the firm's stakeholders.
3. ***A company's ethical philosophy determines its ability to provide value for its customers.***  
An ethical company practice earns the respect of both customers and employees.
4. ***A company's ethical philosophy has an impact on its ability to provide value for its customers and job security for its employees.*** Increasingly, entrepreneurs are

recognizing that ethical behavior is an investment in the company's future rather than a cost of doing business.

### **An Ethical Framework**

To cope successfully with the myriad ethical decisions they face, entrepreneurs must develop a workable ethical framework to guide themselves and the organization. Although many such frameworks exist, the following four-step process can work quite well.

***Step 1. Identify the personal moral and ethical principles that shape all business decisions.***

Entrepreneurs build the foundation for making ethical decisions by understanding how their personal values come to life in business situations. This starts with an inventory of the important principles that define one's personal values.

***Step 2. Recognize the ethical dimensions involved in the dilemma or decision.***

Before an entrepreneur can make an informed ethical decision, she must recognize that an ethical situation exists. Too often, business owners fail to take into account the ethical impact of a particular course of action until it is too late.

***Step 3. Identify the key stakeholders involved and determine how the decision will affect them.***

Every business influences, and is influenced by, a multitude of stakeholders. Frequently, the demands of these stakeholders conflict with one another, putting a business in the position of having to choose which groups to satisfy, and which to alienate. Analysis may not resolve the conflict; it will prevent the company from inadvertently causing harm to people it may have failed to consider.

***Step 4. Generate alternative choices and distinguish between ethical and unethical responses.***

Small business managers will find the questions in Table 2.1 to be helpful.

***Step 5. Choose the "best" ethical response and implement it.***

At this point, there likely will be several ethical choices from which managers can pick. The final choice must be consistent with the company's goals, culture, and value system as well as those of the individual decision makers.

*Refer to Table 2.1: Questions to Help Identify the Ethical Dimension of a Situation on page 43 in the text.*

### **Why Ethical Lapses Occur**

Ethical lapses may occur because of:

- ***An unethical employee***  
Ethical decisions are individual decisions, and some people are corrupt.
- ***An unethical organizational culture***  
In some cases, the company culture has been poisoned with an unethical overtone.

To create an environment for your people that facilitates ethical behavior, an entrepreneur should:

- Set the tone: The values you profess must be aligned with the behaviors you demonstrate.
- Establish and enforce policies: Without a demonstration of real consequence and personal accountability, policies are useless.
- Educate and recruit.
- Separate duties.
- Reward ethical conduct.
- Eliminate “undiscussables:” Doing away with untouchables shines a light of openness and promotes trust.

- ***Moral blindness***

Sometimes, fundamentally ethical people commit ethical blunders because they are blind to the ethical implications of their conduct. One of the most common mechanisms is rationalization. The following statements capture those sentiments.

*“Everybody does it.”*

*“If they were in my place, they’d do it too.”*

*“Being ethical is a luxury I cannot afford right now.”*

*“The impact of my decision/action on (whomever or whatever) is not my concern.”*

*“I don’t get paid to be ethical; I get paid to produce results.”*

Training in ethical thinking and creating an environment that encourages considering the ethical impact of decisions can reduce moral blindness.

- ***Competitive pressures***

If competition is so intense that a company’s survival is threatened, managers may begin to view as acceptable what were once unacceptable options. When there does not exist a positive organizational culture which stresses ethical behavior regardless of consequences employees may respond to feelings of pressure and compromise personal ethical standards to ensure that a contract is not lost or that a project is completed on time.

- ***Opportunity pressures***

When the opportunity to “get ahead” by taking some unethical action presents itself, some people cannot resist the temptation. The greater the reward or the smaller the penalty for unethical acts, the greater is the probability that such behavior will occur.

- ***Globalization of business***

Companies have discovered that there is no single standard of ethical behavior applying to all business decisions in the international arena. Practices that are illegal in one country may be perfectly acceptable, even expected, in another.

***Discussion: What role can an entrepreneur take to mitigate the potential of these lapses occurring?***

*Expect student to discuss the challenge the entrepreneur faces. Setting expectation for the company's culture and individual performance may be a part of this discussion.*

## **ESTABLISHING AND MAINTAINING ETHICAL STANDARDS**

There are tests for establishing ethical standards. Ethical tests for judging behavior include:

1. ***The utilitarian principle***  
Choose the option that offers the greatest good for the greatest number of people.
2. ***Kant's categorical imperative***  
Act in such a way that the action taken under the circumstances could be a universal law or rule of behavior.
3. ***The professional ethic***  
Take only those actions that a disinterested panel of professional colleagues would view as proper.
4. ***The Golden Rule***  
Treat other people the way you would like them to treat you.
5. ***The television test***  
Would you and your colleagues feel comfortable explaining your actions to a national television audience?
6. ***The family test*** Would you be comfortable explaining to your children, your spouse, and your parents why you took this action?

## **Maintaining Ethical Standards**

Steps to create ethical standards include:

- ***Set the tone.***  
Entrepreneurs must remember that ethics starts at the top and set an impeccable ethical example at all times. If entrepreneurs and their managers talk about the importance of ethics and then act in an unethical manner, they send mixed signals to employees.
- ***Create a company credo.***  
A company credo defines the values underlying the entire company and its ethical responsibilities to its stakeholders. It offers general guidance in ethical issues. The most effective credos capture the elusive essence of a company—what it stands for, why it is important, and how it can be an important ingredient in the company's competitive edge. A credo is an excellent way to transform those values into employees' ethical behavior.

- ***Establish high standards of behavior, not just rules.***  
All employees must understand that ethics is not negotiable.
- ***Involve employees in establishing ethical standards.***  
Involving employees improves the quality of a firm's ethical standards and increases the likelihood of employee compliance.
- ***Create a culture that emphasizes two-way communication.***  
Employees must have the opportunity to report any ethical violations they observe.
- ***Develop a code of ethics.***  
A code of ethics is a written statement of the standards of behavior and ethical principles a company expects from its employees. They do not ensure ethical behavior, but they do establish minimum standards of behavior throughout the organization. Workers who will be directly affected by the code should have a hand in developing it.
- ***Enforce the code fairly and consistently.***  
Managers must take action when they discover ethical violations. If employees learn that ethical breaches go unpunished, the code of ethics becomes meaningless. Enforcement of the code of ethics demonstrates to everyone that you believe that ethical behavior is mandatory.
- ***Recruit and promote ethical employees.***  
Ultimately, the decision in any ethical situation belongs to the individual. To make ethical decisions, people must have:
  - ***Ethical commitment***—the personal resolve to act ethically and do the right thing.
  - ***Ethical consciousness***—the ability to perceive the ethical implications of a situation.
  - ***Ethical competency***—the ability to engage in sound moral reasoning and develop practical problem-solving strategies.
- ***Conduct ethics training.***  
One of the most effective ways to display that commitment is through ethical training designed to raise employees' consciousness of potential ethical dilemmas. Ethics training programs not only raise employees' awareness of ethical issues, but they also communicate to them the core of the company's value system.
- ***Reward ethical conduct.***  
The reward system is a large window into the values of an organization. If you reward a behavior, people have a tendency to repeat the behavior.
- ***Separate related job duties.***  
Not allowing the employee who writes checks to reconcile the company bank statement is an example of this.



- ***Perform periodic ethical audits.***

These reviews send a signal to employees that ethics is not just a passing fad.

*Refer to Table 2.5: Ten Ethical Principles to Guide Behavior on page 48 in the text.*

### **Entrepreneurship in Action – But Is It Safe?**

#### ***Questions and Answers***

*pages 49 - 50*

1. **Is it ethical for a company to expose people to products that have not been definitively proven to be safe? Explain.**

Expect students to offer a variety of comments as to the ethics of this practice.

2. **How should companies test the safety of products before they are introduced? Explain.**

Use this exercise to apply critical thinking to define ethical behavior.

3. **Create a detailed diagram of all the stakeholders of Oxitec. How is each of the stakeholders affected by Oxitec's actions? Explain. What conclusions can you draw from this analysis? Explain.**

Use this exercise to apply critical thinking to define ethical behavior. Students should be able to identify such stakeholders as the community, employees of Oxitec, City officials, suppliers to Oxitec, investors in Oxitec, and even medical care facilities in the area.

## SOCIAL ENTREPRENEURSHIP

### Social Responsibility

One problem facing businesses is defining just what social responsibility is. Is social responsibility manufacturing environmentally friendly products? Is it donating a portion of profits to charitable organizations? Is it creating jobs in inner cities plagued by high unemployment levels? The specific nature of a company's social responsibility efforts will depend on how its owners, employees, and other stakeholders define what it means to be socially responsible.

Social responsibility is the awareness by a company's managers of the social, environmental, political, human, and financial consequences their actions produce.

The concept of social responsibility has evolved from a nebulous "do-gooder" image to one of "social steward" with expectations of specific organizational behaviors that benefit the environments in which the business operates. Society has continually redefined its expectations of business owners and now holds all enterprise to high behavioral standard.

- ***Social Responsibility – the awareness by a company's managers of the social environmental, political, human, and financial consequences its actions produce.***

Customers are increasingly demanding the companies they buy goods and services from to be socially responsible. When customers shop for "value," they also consider the company's stance on sustainability and social responsibility.

- ***Studies: Companies that incorporate social responsibility into their competitive strategies outperform those that fail to do so.***

Studies report that when price, service, and quality are equal among competitors, customers buy from the company that has the best reputation for social responsibility. A recent survey by SurePayroll reports that 55 percent of small business's mission statement includes a reference to achieving some type of social goal. Other surveys have revealed consumers would not buy, at any price, from a company that was not socially responsible.

### **In the Entrepreneurial Spotlight – Making a Profit and Making a Difference**

#### ***Questions and Answers***

*pages 51-52*

1. **Do you agree with the path Kyle McCollum is taking to use for-profit business to help support social causes? Explain.**

Students may have a variety of answers for this question.

2. **What benefits does Everly realize by committing to donate Oral Rehydration Salts for every sale they make of their drink packets?**

Everly benefits from the satisfaction of helping people and the planet, but this goodwill can also help increase sales as consumers choose his product for its helpfulness to others around the world.

3. **Select a local small business and work with a team of your classmates to brainstorm ideas for a social responsibility strategy that helps a charitable organization or social cause and produces benefits for the small company. What advice can you offer a small business that is considering supporting a nonprofits organization or social cause?**

Expect students to select a business and develop a social responsibility strategy that fits the scope, size and personality of the business.

Advice may address into these areas:

- Evaluation regarding cost impacts, such as higher cost of goods
- Limitations on sourcing options
- Competitive vulnerability based on purchase price
- Lower margin and profits due to the cost structure
- Product and company image differentiation
- An advanced learning curve in the area of social responsibility
- Well-positioned for future product introduction and growth opportunities
- The long-term financial benefits of sustainable company to its owners
- Community involvement

## **PUTTING SOCIAL RESPONSIBILITY INTO PRACTICE**

### **Business has a Social Responsibility to ...**

- *The environment*
- *Employees*
- *Customers*
- *Investors*
- *The community*

We will now discuss each of these areas relating to social responsibility.

### **Business's Responsibility to the Environment**

Driven by their customers' interest in protecting the environment, companies have become more sensitive to the impact their products, processes, and packaging have on the planet. Environmentalism has become—and will continue to be—one of the dominant issues for companies worldwide. Consumers have added another item to their list of buying criteria: environmental safety.

Socially responsible business owners focus on the three R's: reduce, reuse, recycle.

- *Reduce the amount of materials used in your company.*
- *Reuse whatever you can.*

- ***Recycle the materials that you must dispose of.***

Progressive companies are creating redesigned, “clean” manufacturing systems that focus on avoiding waste and pollution. These companies design their products, packaging, and processes from the start with the environment in mind, working to eliminate hazardous materials and byproducts and looking for ways to turn what had been scrap into salable products.

### **Business’s Responsibility to Employees**

Few other stakeholders are as important to a business as its employees. Entrepreneurs who are sensitive to the value of their employees follow a few simple procedures. Responsible entrepreneurs that want to reap the benefits of diversity:

- Listen to employees and respect their opinions.
- Ask for their input; involve them in the decision-making process.
- Provide regular feedback—positive and negative—to employees.
- Tell them the truth—always.
- Let them know exactly what is expected of them.
- Reward employees for performing their jobs well.
- Trust them: create an environment of respect and teamwork.

Although not complete, this chapter will address the topics of cultural diversity, drug testing, AIDS, sexual harassment and privacy. Firms have a responsibility to its employees, both through policies and procedures and proactive implementation.

### **U.S. Population by Demographic Group**

The United States is a nation of cultural diversity adding an incredible richness of ideas and creativity. The United States is moving toward a “minority majority” and significant demographic shifts will affect virtually every aspect of business. One in three U.S. residents—a total of more than 100 million people—is a member of a minority group. The Hispanic population is the fastest growing sector in the U.S., and now comprises the largest minority population in the nation.

### **SPLENDID Approach to Diversity**

One of the chief benefits of a diverse workforce is the rich blend of perspectives, skills, talents, and ideas employees have to offer. Molding workers with highly varied beliefs, backgrounds, and biases into a unified team takes time and commitment. Stereotypes, biases, and prejudices will present barriers that workers and managers must constantly overcome.

How can entrepreneurs achieve unity through diversity? The only way is by managing diversity in the workforce: Entrepreneurs must create an environment in which all types of workers can flourish and can give top performances to their companies.

Managing a culturally diverse workforce successfully requires a business owner to:

- Assess the company's diversity needs.
- Learn to recognize and correct one's own biases and stereotypes.
- Avoid making invalid assumptions.
- Push for diversity in the management team.
- Concentrate on communication.
- Make diversity a core value in the organization.
- Continue to adjust the company to the workers.

People with varying cultural, racial, gender and lifestyle perspectives are seeking opportunity and acceptance from co-workers, managers and business leaders.

The SPLENDID Approach to Diversity includes:

- **Study** - Entrepreneurs must familiarize themselves with issues related to diversity, including relevant laws.
- **Plan** - Recognizing the makeup of the local population, entrepreneurs must set targets for diversity hiring and develop a plan for achieving them.
- **Lead** - A diversity effort starts at the top of the organization with managers communicating their vision and goals to everyone in the company.
- **Encourage** - Company leaders must encourage employees at all levels of an organization to embrace the diversity plan.
- **Notice** - Entrepreneurs must monitor their companies' progress toward achieving diversity goals.
- **Discussion** - Managers must keep diversity on the company's radar screen by communicating the message that diversity is vital to business success.
- **Inclusion** - Involving employees in the push to achieve diversity helps break down barriers that may arise.
- **Dedication** - Achieving diversity in a business does not happen overnight, but entrepreneurs must be persistent in implementing their plans.

## Managing Diversity

The following guidelines will be helpful for managing diversity.

- ***Assess your company's diversity needs.***  
Surveys, interviews, and informational conversations with employees can be valuable tools to assess a company's needs.
- ***Learn to recognize your own biases and stereotypes.***  
Gain exposure to people who are different than you.
- ***Avoid making invalid assumptions.***  
Decisions that are based on faulty assumptions are bound to have flaws.
- ***Push for diversity in your management team.***  
A culturally diverse top management team that can serve as mentors and role models provide visible evidence that nontraditional worker can succeed.

## Managing Diversity – continued

- ***Concentrate on communication.***  
Any organization will stumble if lines of communication break down. Frequent training sessions and regular opportunities for employees to talk with one another in a nonthreatening environment can be extremely helpful.
- ***Make diversity a core value in the organization.***  
Top managers must “champion” the program and take active steps to integrate diversity throughout the entire organization.
- ***Continue to adjust your company to your workers.***  
Rather than pressure workers to conform to the company, those entrepreneurs with the most successful cultural diversity programs are constantly looking for way to adjust their business to their workers. Flexibility is the key.

## Responsibility to Employees – Drug Testing

One reality of our society is the use of illegal drugs. The second reality is that this problem affects the workplace. What should concern entrepreneurs the most is that these individuals seek organizations that do not understand the nature of the problem and, consequently, have no related policy in place. Because the practice of drug testing is controversial, due to the employee's right to privacy, its random use can result in employees taking legal action against the firm. An entrepreneur must take extreme care to ensure absolute privacy and avoidance of public disclosure.

***Discussion: Have you been drug tested by an employer? How does that policy influence your perception of the work environment?***

*Expect student to share their experiences and feels about drug testing and its potential effect on the work environment in a positive or negative way.*

### **A Drug Prevention Program Should Include ...**

An effective pro-active drug program should include the following four elements:

- ***A written substance abuse policy.***  
The policy should state its purpose, prohibit the use of drugs on the job (or off the job if it affects job performance), specify the consequences of violating the policy, explain any drug testing procedures to be used, and describe the resources available to help troubled employees.
- ***Training for supervisors to detect drug-using workers.***  
The supervisor should identify problem employees early and encourage them to seek help.
- ***An employee education program.***  
Business owners should take time to explain the company's substance abuse policy, the reasons behind it, and the help that is available to employees who have substance abuse problems.
- ***A drug testing program, when necessary.***  
Preemployment testing of job applicants generally is a safe strategy to follow, as long as it is followed consistently. Testing current employees is a more complex issue.
- ***An employee assistance program (EAP).***  
An employee assistance program (EAP) is a company-provided benefit designed to help reduce workplace problems such as alcoholism, drug addiction, a gambling habit, and other conflicts and to deal with them when they arise.

### **Responsibility to Employees – HIV/AIDS**

AIDS (acquired immune deficiency syndrome) poses an array of ethical dilemmas for business, ranging from privacy to discrimination. AIDS has had an impact on our economy in the form of billions of dollars in lost productivity and increased health care cost. AIDS is considered a disability and, as such, is covered by the Americans with Disabilities Act and entrepreneurs need to be aware of this. This legislation prohibits discrimination against any person with a disability, including AIDS, in hiring, promoting, discharging, or compensation. In addition, employers are required to make "reasonable accommodations" that will allow an AIDS-stricken employee to continue working. Some examples of these accommodations include; job sharing, flexible work schedules, job reassignment, sick leave, and part-time work.

### **An AIDS Policy Should Address ...**

Despite the fact that AIDS is becoming more common in the workplace; few businesses are prepared adequately to deal with it. Yet coping with AIDS in a socially responsible manner requires a written policy and an educational program, ideally implemented *before* the need arises. Decisions on dealing with AIDS must be based on facts rather than on emotions, so owners must be well informed. As with drug testing, it is important to ensure that a company's AIDS policies are legal.

In general, a company's AIDS policy should include the following:

- **Employment**  
Companies must allow employees with AIDS to continue working as long as they can perform the job.
- **Discrimination**  
Because AIDS is a disability, employers cannot discriminate against qualified people with the disease who can meet job requirements.
- **Employee benefit.**  
Employees with AIDS have the right to the same benefits as those with any other life-threatening illness.
- **Confidentiality**  
Employers must keep employees' medical records strictly confidential.
- **Education**  
An AIDS education program should be a part of every company's AIDS policy.
- **"Reasonable accommodations"** These may include extended leaves of absence, flexible work schedules, restructuring a job to require less-strenuous duties, purchasing special equipment to assist affected workers, and other modifications.

### **Sexual Harassment**

Society, through its legal system, has clearly spoken out that such practices are unquestionably wrong and contrary to its values. Sexual harassment is a violation of Title VII of the Civil Rights Act of 1964 and is considered to be a form of sex discrimination.

- ***Sexual harassment is any unwelcome sexual advance, request for sexual favors, and other verbal or physical sexual conduct made explicitly or implicitly as a condition of employment.***  
This constitutes illegal behavior in the workplace.
- ***84% of sexual harassment cases are filed by women.***  
Jury verdicts reaching into the millions of dollars are not uncommon.
- ***Harassment can take several forms.***  
Several types of behavior may result in charges of sexual harassment.

### **Behavior Leading to Sexual Harassment Charges**

Several types of behavior may result in sexual harassment charges.

- ***Quid pro quo harassment***  
The most blatant, and most potentially damaging, form of sexual harassment is quid pro quo—"something for something"—in which a superior conditions the granting of a benefit (promotion, raise, etc.) upon the receipt of sexual favors from a subordinate. Only managers and supervisors can engage in quid pro quo harassment.



- ***Hostile environment***

Behavior that creates an abusive, intimidating, offensive, or hostile work environment also constitutes sexual harassment. A hostile environment usually requires a pattern of offensive sexual behavior rather than a single, isolated remark or display. In judging whether a hostile environment exists, courts base their decisions on how a “reasonable woman” would perceive the situation. (The previous standard was that of a “reasonable person.”)

- ***Harassment by nonemployees.***

An employer can be held liable for third parties (customers, sales representatives, and others) who engage in sexual harassment if the employer has the ability to stop the improper behavior. In recent rulings, the United States Supreme Court changed the nature of an employer’s liability for sexual harassment, rejecting the previous standard that the employer had to be negligent somehow to be liable for a supervisor’s improper behavior toward employees.

A company’s best weapons against sexual harassment are education, policy, and procedures.

*Refer to Figure 2.6: Number of Sexual Harassment Charges Files on page 60.*

### **Preventing Sexual Harassment – Education, policy and procedure**

- ***Education***

Preventing sexual harassment is the best solution, and the key to prevention is educating employees about what constitutes sexual harassment.

- ***Policy***

The policy should:

- Clearly define what behaviors constitute sexual harassment.
- State in clear language that harassment will not be tolerated in the workplace.
- Identify the responsibilities of supervisors and employees in preventing harassment.
- Define the sanctions and penalties for engaging in harassment.
- Spell out the steps to take in reporting an incident of sexual harassment.
- In another case, the United States Supreme Court ruled that an employer was liable for a supervisor’s sexually harassing behavior even though the employee never reported it. The company’s liability stemmed from its failure to communicate its sexual harassment policy throughout the organization.

- ***Procedure***

Choosing a person inside the company (perhaps someone in the human resources area) and one outside the company (a close adviser or attorney) is a good strategy.

At least one of these should be a woman. When a complaint arises, managers should:

- *Listen to the complaint carefully without judging.*
- *Investigate the complaint promptly, preferably within 24 hours.*
- *Interview the accused party and witnesses who may be aware of a pattern of harassing behavior privately and separately.*
- *Keep findings confidential.*
- *Decide what action to take, relying on company policy as a guideline.*
- *Inform both the complaining person and the alleged harasser of the action taken.*
- *Document the entire investigation.*

### **Entrepreneurship In Action – Think Before You Hit “Post” on Facebook**

#### *Questions and Answers*

page 65

1. **If you were the judge in the *Becker* case, how would you rule? Explain your reasoning.**

Expect that students will state a position and defend that choice. At the core of the issues is to determine the level of control a corporation has over employee communication.

2. **If you were the judge and the Souza case had not been settled, how would you rule? Explain your reasoning.**

Expect that students will state a position and defend that choice. At the core of the issues is to determine the level of control a corporation has over employee communication.

3. **What policies would you put in place as a business owner about employee comments on social media sites like Facebook and Twitter? Explain your policies based on the cases discussed above.**

Companies can take the following steps to protect themselves against invasion of privacy lawsuits:

- Create a privacy policy explicitly stating that employee e-mails may be monitored.
- Specify the appropriate use of company communication including e-mail.
- Include invasion of privacy policies in new employee orientation and training sessions.
- Review privacy policies on an ongoing basis.
- Create an environment of open communication allowing employees to be fully informed of the company position.

### **Responsibility to Employees – Privacy**

Technology has given business owners the ability to monitor workers' performances as they never could before, but where is the line between monitoring productivity and invasion of privacy? Managers use electronic monitoring to track customer service representatives, word-processing clerks, data entry technicians, and other workers for speed, accuracy, and productivity.

Electronic communication technology also poses ethical problems for employers. Most employees simply do not know that their bosses can legally monitor their e-mail and voice-mail messages, often without notification. To avoid ethical problems, a business owner should establish a clear policy for monitoring employees' communications and establish guidelines for the proper use of the company's communication technology.

The balance between privacy and security is challenging. Questions to consider when implementing a privacy policy include:

1. Is the company's current privacy policy realistic when threatened?
2. What privacy protections should the privacy policy commit to?

### **Business's Responsibility to Customers**

One of the most important groups of stakeholders that a business must satisfy is its *customers*. Socially responsible companies recognize their duty to abide by the Consumer Bill of Rights, first put forth by President John F. Kennedy. This document gives consumers the following rights.

- ***Right to Safety***  
Companies have the responsibility to provide their customers with safe, quality products and services. The greatest breach of trust occurs when businesses produce products that, when properly used, injure customers.
- ***Right to Know***  
Consumers have the right to honest communication about the products and services they buy and the companies they buy them from. In a free market economy, information is one of the most valuable commodities available. As a result, companies have a responsibility to customers to be truthful in their advertising.
- ***Right to be Heard***  
Socially responsible businesses provide customers with a mechanism for resolving complaints about products and services. Some companies have established a consumer ombudsman to address customer questions and complaints. Others have used Web sites, created customer hotlines and implemented customer report card to serve customers more effectively.
- ***Right to Education***  
Socially responsible companies give customers access to educational programs

about their products and services and how to use them properly. The goal is to give customers enough information to make informed purchase decisions.

- ***Right to Choice***

Socially responsible companies do not restrict competition, and they abide by the United States' antitrust policy, which promotes free trade and competition in the market. The foundation of this policy is the Sherman Antitrust Act of 1890, which forbids agreements among sellers that restrain trade or commerce and outlaws any attempts to monopolize a market.

### **Business's Responsibility to Investors – optional discussion**

Companies have the responsibility to provide investors with an attractive return on their investment. Business owners have discovered that investors wish to know what actions the organization is taking that encourage and support ethical decision making and act of social responsibility. Investors know that such pro-active steps reduce the risk of future economic loss. Ethical and socially responsible businesses seldom loose legal challenges. Maintaining high social and ethical standards translates into an environment where the stability of long-term profitability is more safely assured. Companies also have the responsibility to report their financial performances in an accurate and timely fashion to their investors. Firms that misrepresent or falsify their financial and operating records are guilty of violating the fiduciary relationship with their investors.

### **Business's Responsibility to the Community – optional discussion**

Socially responsible businesses are aware of their duty to put back into the community some of what they take out as they generate profits; their goal is to become a neighbor of choice.

Over the years, associations have helped social causes enjoy financial rewards and unprecedented support both inside and outside companies. They have also helped corporations enhance their reputations, deepen employee loyalty, strengthen ties with business partners, and sell more products or services. Employees, as well as the community, respond positively to an employer who actively supports the community in which it operates.

### **Conclusion**

Businesses must do more than merely earn profits; they must act ethically and in a socially responsible manner. This includes the responsibility to:

- Establish and maintain high ethical and socially responsible Standards must be a top concern of every business owner.
- Manage ethics and social responsibility presents a tremendous challenge, however.
- Continue define ethics in the workplace. There is no universal definition of ethical behavior, and what is considered ethical may change over time or may be different in other cultures.

Many companies are tackling the problem with education, and the establishment of clearly written standards of behavior, which are consistently reinforced. Finally, business owners and managers must recognize the key role they play in influencing their employees' ethical and socially responsible behavior. What owners and managers say is important, but what they do is even more vital! Employees throughout a small company look to the owner and managers as models; therefore, these owners and managers must commit themselves to following the highest ethical standards if they expect their organizations to do perform at the same level.

## **Part Four: Discussion Questions**

### **1. What is ethics? Discuss the three levels of ethical standards. (LO 1: Define business ethics; AACSB: Ethical understanding and reasoning)**

Business ethics involves the fundamental moral values and behavioral standards that form the foundation for the people of an organization as they make decisions and interact with organizational stakeholders. Small business managers must consider the ethical and social as well as the economic implications of their decisions.

The three levels of ethical standards are:

1. The law
2. The policies and procedures of the company
3. The moral stance of the individual.

### **2. List the core personal values that you intend to bring to your business (e.g., treating people fairly, giving something back to the community, and so on). Where does each of these core values come from (religious faith, family, and so on)? Why is each of these important to you? (LO 3: Explain how to establish and maintain high ethical standards; AACSB: Ethical understanding and reasoning, Reflective thinking)**

Expect very personal responses to these questions.

### **3. In any organization, who determines ethical behavior? Briefly describe the three ethical styles of management. What are the benefits of moral management? (LO 2: Determine who is responsible for ethical behavior; AACSB: Ethical understanding and reasoning)**

Managers set the moral tone of the organization. There are three ethical styles of management: immoral, amoral, and moral. Although moral management has value in itself, companies that operate with this philosophy discover other benefits, including a positive reputation among customers and employees.

*Table 2.2: Approaches to Business Ethics on page 41 summarizes the characteristics of the three ethical styles of management: immoral, amoral, and moral management.*

### **4. Why do ethical lapses occur in businesses? (LO 3: Explain how to establish and**

**maintain high ethical standards; AACSB: Ethical understanding and reasoning)**

When faced with an ethical dilemma, not every manager or employee will make the correct decision. In fact, many unethical acts are committed by normally decent people who believe in moral values. Ethical lapses occur because:

***An unethical employee***

Ethical decisions are individual decisions, and some people are corrupt.

***An unethical organizational culture***

In some cases, the company culture has been poisoned with an unethical overtone. To create an environment that facilitates ethical behavior, an entrepreneur should:

- Set the tone: The values you profess must be aligned with the behaviors you demonstrate.
- Establish and enforce policies: Without a demonstration of real consequence and personal accountability, policies are useless.
- Educate and recruit.
- Separate duties.
- Reward ethical conduct.
- Eliminate “undiscussables:” Doing away with untouchables shines a light of openness and promotes trust.

***Moral blindness***

Sometimes, fundamentally ethical people commit ethical blunders because they are blind to the ethical implications of their conduct. Training in ethical thinking and creating an environment that encourages considering the ethical impact of decisions can reduce moral blindness.

***Competitive pressures***

If competition is so intense that a company’s survival is threatened, managers may begin to view as acceptable what were once unacceptable options. When there does not exist a positive organizational culture which stresses ethical behavior regardless of consequences employees may respond to feelings of pressure and compromise personal ethical standards to ensure that a contract is not lost or that a project is completed on time.

***Opportunity pressures***

When the opportunity to “get ahead” by taking some unethical action presents itself, some people cannot resist the temptation. The greater the reward or the smaller the penalty for unethical acts, the greater is the probability that such behavior will occur.

***Globalization of business***

Companies have discovered that there is no single standard of ethical behavior applying to all business decisions in the international arena. Practices that are illegal in one country may be perfectly acceptable, even expected, in another.

- 5. Describe the various methods for establishing ethical standards. Which is most meaningful to you? Why? (LO 3: Explain how to establish and maintain high**

**ethical standards; AACSB: Ethical understanding and reasoning)**

There are six ethical standards one could use to judge ethical behavior:

1. ***The utilitarian principle.*** Choose the option that offers the greatest good for the greatest number of people.
  2. ***Kant's categorical imperative.*** Act in such a way that the action taken under the circumstances could be a universal law or rule of behavior.
  3. ***The professional ethic.*** Take only those actions that a disinterested panel of professional colleagues would view as proper.
  4. ***The Golden Rule.*** Treat other people the way you would like them to treat you.
  5. ***The television test.*** Would you and your colleagues feel comfortable explaining your actions to a national television audience?
  6. ***The family test.*** Would you be comfortable explaining to your children, your spouse, and your parents why you took this action?
6. **What can business owners do to maintain high ethical standards in their companies? (LO 3: Explain how to establish and maintain high ethical standards; AACSB: Ethical understanding and reasoning)**

What can managers do to integrate ethical principles into their companies? Possible actions include:

- Create a company credo.
  - Develop a code of ethics.
  - Enforce the code fairly and consistently.
  - Conduct ethics training.
  - Hire the right people.
  - Perform periodic ethical audits.
  - Establish high standards of behavior, not just rules.
  - Set an impeccable ethical example at all times.
  - Create a culture that emphasizes two-way communication.
  - Involve employees in establishing ethical standards.
7. **What is a social entrepreneur? How do they differ from traditional entrepreneurs? (LO 4: Explain the difference between social entrepreneurs and traditional entrepreneurs)**

A social entrepreneur is one who starts a business so that he or she can create innovative solutions to society's most vexing problems. They seek solutions for social problems that neither the market nor the government provide, are motivated primarily by creating social benefit rather than commercial success, and they tackle social problems by taking full advantage of natural market forces.

**8. What are some social problems that you think could be tackled by social entrepreneurs? (LO 4: Explain the difference between social entrepreneurs and traditional entrepreneurs)**

Expect a wide variety of answers to this question.

**9. What is social responsibility? (LO 5: Define social responsibility)**

Social responsibility is the awareness by a company's managers of the social, environmental, political, human, and financial consequences their actions produce. Companies must go beyond earning a profit; they must also live up to their social responsibility.

**10. Describe business's social responsibility to each of the following areas: The Environment; Employees; Customers; Investors; and The community. (LO 7, 8, 9, 10: Describe business's social responsibility)**

- ***The environment.*** Environmentally responsible business owners focus on the three R's: reduce, reuse, recycle: *reduce* the amount of materials used in the company from the factory floor to the copier room; *reuse* whatever you can; and *recycle* the materials that you must dispose.
- ***Employees.*** Those that own companies have a duty to act responsibly toward one of their most important stakeholders: their employees. Businesses must recognize and manage the cultural diversity that exists in the workplace; establish a responsible strategy for combating substance abuse in the workplace (including drug testing) and dealing with AIDS; prevent sexual harassment; and respect employees' right to privacy. In addition, the responsibility to "do the right thing" also lies with employees regarding the day-to-day decisions they make as representative of their company.
- ***Investors.*** Companies have the responsibility to provide investors with an attractive return on their investments and to report their financial performances in an accurate and timely fashion to their investors.
- ***Customers.*** Every company's customers have a right to safe products and services; to honest, accurate information; to be heard; to education about products and services; and to choices in the marketplace.
- ***The community.*** Increasingly, companies are seeing a need to go beyond "doing well" to "doing good"—being socially responsible community citizens. In addition to providing jobs and creating wealth, companies contribute to the local community in many different ways.

**11. What can businesses do to improve the quality of our environment? (LO 6: Explain the nature of business's responsibility to the environment)**

Socially responsible business owners focus on the three R's: reduce, reuse, and recycle. Truly progressive companies are creating redesigned, "clean" manufacturing systems that focus on avoiding waste and pollution. These companies design their products, packaging, and processes from the start with the environment in mind,



working to eliminate hazardous materials and byproducts and looking for ways to turn what had been scrap into salable products.

**12. Should companies be allowed to test employees for drugs? Explain. How should a socially responsible drug testing program operate? (LO 7: Describe business's responsibility to employees)**

Drug and alcohol abuse by employees results in reduced productivity, increased medical cost, as well as higher rates of accidents and absenteeism. Individuals with drug and alcohol problems are working in our businesses. Because the practice of drug testing is controversial, due to the employees' right to privacy, its random use can result in employees taking legal action against the firm. Extreme care must be exercised to ensure absolute privacy and avoidance of public disclosure.

An effective pro-active drug program should include the following four elements:

1. A written substance abuse policy.
2. Training supervisors to detect drug-using workers.
3. A drug testing program, when necessary.
4. An employee assistance program (EAP).

**13. Many owners of trucking companies use electronic communications equipment to monitor their drivers on the road. They say that the devices allow them to remain competitive and to serve their customers better by delivering shipments of vital materials exactly when their customers need them. They also point out that the equipment can improve road safety by ensuring that drivers get the hours of rest the law requires. Opponents argue that the surveillance devices work against safety. "The drivers know they're being watched," says one trucker. "There's an obvious temptation to push?" What do you think? What ethical issues does the use of such equipment create? How should a small trucking company considering the use of such equipment handle these issues? (LO 7: Describe business's responsibility to employees; AACSB: Reflective thinking)**

For this open-ended discussion question, students should realize that the business has the right to use such devices regardless of employee concerns. The issue is how to implement them without making it an issue. In addition, almost two-thirds of the major trucking companies now have communications devices in their trucks. Companies use these devices to monitor drivers' exact locations at all times, to regulate their speed, to make sure they stop only at approved fueling points, and to ensure that they take the legally required hours of rest. They promote safety and cost savings.

**14. What rights do customers have under the Consumer Bill of Rights? How can businesses ensure those rights? (LO 8: Explain business's responsibility to customers)**

Socially responsible companies recognize their duty to abide by the Consumer Bill of

Rights, first put forth by President John Kennedy. This document gives consumers the following rights.

***Right to Safety***

Companies have the responsibility to provide their customers with safe, quality products and services.

***Right to Know***

Consumers have the right to honest communication about the products and services they buy and the companies from which they buy them.

***Right to be Heard***

The right to be heard suggests that the channels of communication between companies and their customers run in both directions

***Right to Education***

Socially responsible companies give customers access to educational programs about their products and services and how to use them properly.

***Right to Choice***

Inherent in the free enterprise system is the consumer's right to choose among competing products and services.