Chapter 2
Business Ethics and Corporate Social Responsibility
Ethics, Corporate Social Responsibility, and Corporate Sustainability

Ethics: Discipline of dealing with:
- What is good and bad
- What is right and wrong
- Moral duty and obligation

Corporate social responsibility (CSR):
The implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves

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Corporate sustainability focuses on the possible future impact of an organization on society, including social welfare, the economy, and the environment.
Explore the Concept of Business Ethics

- Nearly every industry has experienced a painful ethical crisis in recent years
- Business ethics scandals continue to make headlines
- Examples:
  - Lying on résumés
  - Obstruction of justice
  - Destruction of records
  - Stock price manipulation
  - Cutting corners to meet Wall Street’s expectations
  - Fraud, waste, and abuse
Sources of Ethical Guidance

- Lead to our beliefs or convictions about what is right or wrong

- Examples:
  - Bible and other holy books
  - Conscience
  - Significant others
  - Code of ethics
Legislating Ethics

- Procurement Integrity Act
- Federal Sentencing Guidelines for Organizations (FSGO)
- Corporate and Auditing Accountability, Responsibility, and Transparency Act
- Dodd-Frank Wall Street Reform and Consumer Protection Act
Procurement Integrity Act of 1988

- Prohibits release of source selection and contractor bid or proposal information
- Places restrictions on former employees
- Passed after reports of military contracts for:
  - $500 toilet seats
  - $5,000 hammer
Federal Sentencing Guidelines for Organizations (FSGO) of 1992

- Outlined effective ethics training program
- Promised softer punishments for wayward corporations that had ethics programs in place
- Executives needed to be proactive
- Created:
  - Ethics officer positions
  - Ethics hotlines
  - Codes of conduct
Corporate and Auditing Accountability, Responsibility, and Transparency Act of 2002

- Known as Sarbanes-Oxley Act
- Primary focus was to redress accounting and financial reporting abuses
- Criminalized many corporate acts
- Established whistleblower protections
- Prohibited loans to executives and directors
Dodd-Frank Wall Street Reform and Consumer Protection Act

- Act brought on by worst financial crisis since Great Depression
- Executive compensation played a major role in financial services sector, as well as in capital markets, following the collapse of investment service firms
Creating an Ethical Culture and Code of Ethics

- Way for firm to create and sustain an ethical culture is to audit ethics
- Climate at the top is fundamental to company's ethical culture
- Firms with weak ethical cultures experience 10 times more misconduct than companies with strong ethical cultures
Code of Ethics

- Statement of values adopted by:
  - Company
  - Its employees
  - Directors

- Sets official tone of top management regarding expected behavior

- Establishes rules by which organization operates

- Becomes part of organization’s corporate culture
Ethics Officer

- Larger firms appoint ethics officers
- Keeps code on front burner for employees
- Ethics committee often established
Malcolm Baldrige National Quality Award

- Increased emphasis on ethics in leadership
- Criteria: Senior leaders should serve as role models for the rest of the organization
Human Resource Ethics

- Application of ethical principles to HR relationships and activities
- HR has a great deal to do with establishing an organization’s conscience
Linking Pay to Ethical Behavior

- Few companies have made ethics and compliance a process for determining how employees are compensated.
- Only about 1 in 6 companies ties incentives to ethical performance.
- More work needs to be done.
Ethics Training

- FSGO outlined effective ethics training program to educate employees in company’s standards and procedures
- Ethics training should be for everyone
Corporate Social Responsibility (CSR)

**CSR:** Implied, enforced, or felt obligation of managers, acting in their official capacities, to serve or protect interests of groups other than themselves.

Corporation behaves as if it has a conscience.
CSR Illustration: Carroll’s Pyramid

- **Discretionary responsibilities**: The fourth layer of responsibility is to proactively seek opportunities to make a positive contribution to society beyond profitability, compliance and business ethics. At the discretionary, or voluntary, level, organizations have a responsibility to understand broad stakeholder needs and to address societal concerns though their business practices.

- **Ethical responsibilities**: The third layer of the pyramid requires organizations to consider social and environmental impacts of their operations and, as far as possible, to do no harm while pursuing business interests.

- **Legal responsibilities**: The second aspect of responsibility requires that organizations operate within the law at all locations in which they do business.

- **Economic responsibilities**: The first responsibility of any organization is to deliver an acceptable return for shareholders.
Who Determines CSR?

Organization’s top executives usually determine a corporation’s approach to corporate social responsibility.
Not Everyone Is on Board with Corporate Social Responsibility

- Some have challenged the concept by saying that doing well is doing good
- Milton Friedman—Only social responsibility of business is to increase profits
- BP promoted themselves as being eco-friendly
Corporate Sustainability

- Evolved from the more traditional view of corporate social responsibility
- Expanded to include the social, economic, environmental, and cultural systems needed to support an organization
- Strives to use the best business practices
Social Audit

Systematic assessment of a company’s activities in terms of their social impact
Possible Types of Social Audits

- Simple inventory of activities
- Compilation of socially relevant expenditures
- Determination of social impact
- Ideal social audit: Involves determining true benefits to society of any socially oriented business activity
Can Corporate Social Responsibility Succeed in the Global Environment?

- Some global firms are questioning the wisdom of being socially responsible.
- Adherence to CSR issues has declined.
- First 15 years of CSR efforts have not produced the desired results.
- Significant changes will have to be made.
- Reputation management?