**CHAPTER 2**

**Business Ethics and Social Responsibility**

Chapter Summary: Key Concepts

**Concern for Ethical and Societal Issues**

<table>
<thead>
<tr>
<th><strong>Business ethics</strong></th>
<th>Standards of conduct and moral values governing the actions and decisions in the work environment.</th>
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<tr>
<td><strong>Social responsibility</strong></td>
<td>The enhancement of society’s welfare through philosophies, policies, procedures, and actions.</td>
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**The Contemporary Ethical Environment**

<table>
<thead>
<tr>
<th><strong>Business ethics in the spotlight</strong></th>
<th>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.</th>
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<tbody>
<tr>
<td><strong>Sarbanes-Oxley Act of 2002</strong></td>
<td>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.</td>
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<td><strong>Individuals make a difference</strong></td>
<td>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.</td>
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<td><strong>Development of individual ethics</strong></td>
<td>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.</td>
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<td><strong>On-the-job ethical dilemmas</strong></td>
<td>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.</td>
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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 and the financial community**  
Businesses must be honest in reporting their profits and 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**

<table>
<thead>
<tr>
<th>term</th>
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<tr>
<td>business ethics</td>
<td>pollution</td>
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<td>code of conduct</td>
<td>product liability</td>
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<tr>
<td>conflict of interest</td>
<td>recycling</td>
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<tr>
<td>consumerism</td>
<td>Sarbanes-Oxley Act of 2002</td>
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<tr>
<td>corporate philanthropy</td>
<td>sexism</td>
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<tr>
<td>discrimination</td>
<td>sexual harassment</td>
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<tr>
<td>Equal Employment Opportunity Commission (EEOC)</td>
<td>social audits</td>
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<td>family leave</td>
<td>social responsibility</td>
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<td>green marketing</td>
<td>stakeholders</td>
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<td>integrity</td>
<td>sustainable</td>
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<td></td>
<td>whistle-blowing</td>
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**Application of Vocabulary**

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

1. 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.

2. __________________________ is the tainting or destroying of the natural environment.

3. __________________________ is reprocessing of reusable materials.

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

5. __________________________ is the term used to describe a firm’s formal examination of its social responsibility programs.

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

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

11. __________________________ deals with standards of conduct and moral values that arise in any work 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. __________________________ 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.

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. __________________________ is demonstrated by people who adhere to deeply felt ethical principles in business situations.

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

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

18. Customers, employees, and investors are example of __________________________.

19. The responsibility that manufacturers face for injuries or damages caused by their products is called __________________________.

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

21. The biased treatment of a job candidate or employee in the workplace is known as __________________________.

Analysis of Learning Objectives

Learning Objective 2.1: Explain the concepts of business ethics and social responsibility.

True or False

1. _____ Social responsibility refers to management’s consideration of the social as well as the economic effects of its decisions.
2. _____ Business ethics refers to standards of conduct and moral values applied in business decision making.

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

4. _____ Practicing social responsibility cannot enhance a company’s image.

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

**Learning Objective 2.2:** Describe the factors that influence business ethics.

**Multiple Choice**

1. Individual ethics in the workplace are influenced by:
   a. behaviors of managers.
   b. the organization’s culture.
   c. ethical training.
   d. all of the above.

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 the above.

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 the above.

4. Managers who behave unethically:
   a. are more likely to be promoted.
   b. are commonly reported by employees.
   c. influence employees to do the same.
   d. enforce the code of conduct.

**Learning Objective 2.3:** List the stages in the development of ethical standards and discuss how organizations shape ethical behavior.

**Fill-in**

1. In the ____________________ stage of ethical development, individuals primarily consider their own needs, desires, and personal consequences in making ethical decisions.
2. Those who are aware of and respond to their duty to others have achieved the ________________ stage of ethical development.

3. 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.

**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 code of conduct gives guidance on how the organization expects employees to resolve ethical questions.

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

**Learning Objective 2.4:** Describe how businesses’ social responsibility is measured and summarize the responsibilities of business’ to the general public, customers, and employees.

**True or False**

1. ______ Social audits are regularly conducted by the government.

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. ______ Consumers and public-interest groups have played an active role in helping firms recognize and meet their social responsibilities.

5. ______ Environmental protection, avoiding pollution, and promoting recycling are the responsibility of government, not the business community.

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. ______ According to President John F. Kennedy’s consumer bill of rights, consumers have the rights to safety, to be informed, to choose, and to be heard.

9. ______ The EEOC was created to increase job opportunities for all members of society and to help end discriminatory practices in employment.
10. ______ Family leave is a benefit companies may choose to offer, but no American firm is legally required to provide family leave.

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 involves businesses getting as much as possible from the communities in which they earn profits for the sole benefit of their shareholders.

**Learning Objective 2.5:** Explain why investors and the financial community are concerned with business ethics and social responsibility.

**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. ______ Unethical business practices can have adverse effects on the financial community as a whole, both nationally and internationally.

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. ______ Distribution of information about dangerous products and other public health issues is the sole responsibility of government, and there is no need for business to be involved.

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. ______ Consumerism is becoming an antiquated concept because of the rise in imported products.
5. ______ Smoking and alcohol use are legal and private matters and do not impact business responsibility to the wider society.

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. ______ Before you accept a job, it is a good idea to review your new employer’s code of ethics.

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

11. ______ Most new jobs in developed countries require college-educated workers.

12. ______ All charges of sexual harassment involve unwelcomed sexual advances.

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. ______ Social responsibility and business ethics reach beyond national borders and are a factor of growing importance in global business.

**Multiple Choice**

1. In order to promote ethical behavior in an organization:
   
   a. ethical guidelines should be clearly stated and communicated to employees.
   b. managers must show a personal commitment to ethical values and a willingness to enforce them.
   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. all of the above.

2. The agency charged with ensuring the accuracy of financial statements provided by publicly traded companies is the:
   
   a. EEOC.
   b. FTC.
   c. SEC.
   d. EPA.
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.
   b. protecting the environment.
   c. developing a quality workforce.
   d. all of the above.

5. The Family and Medical Leave Act of 1993:
   a. affects firms with more than 100 employees.
   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. 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.
   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. FTC.
   b. SEC.
   c. EPA.
   d. EEOC.

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. on the basis of the firm’s contribution to economic growth and employment opportunities.
   c. by outside groups who create and monitor standards of corporate performance.
   d. by the firm itself doing a social audit.
   e. all of the above are methods for evaluating social responsibility.

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. postconventional stage.
   b. conventional stage. d. metaethical 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. Two sales representatives from competing companies regularly have lunch together and discuss corporate decisions about new products that their companies are developing.

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 secretary and John is an assistant administrator for the same company. They both oversee large budgets, handle some contract negotiations, deal with customers, and have otherwise similar responsibilities. The company pay scale for assistant administrators is significantly higher than its pay scale for executive secretaries. Hence, John makes a lot more than Jill does.
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. How can firms and their employees promote ethical business practices?