BA 291 Introduction to Business
Business Ethics and CSR

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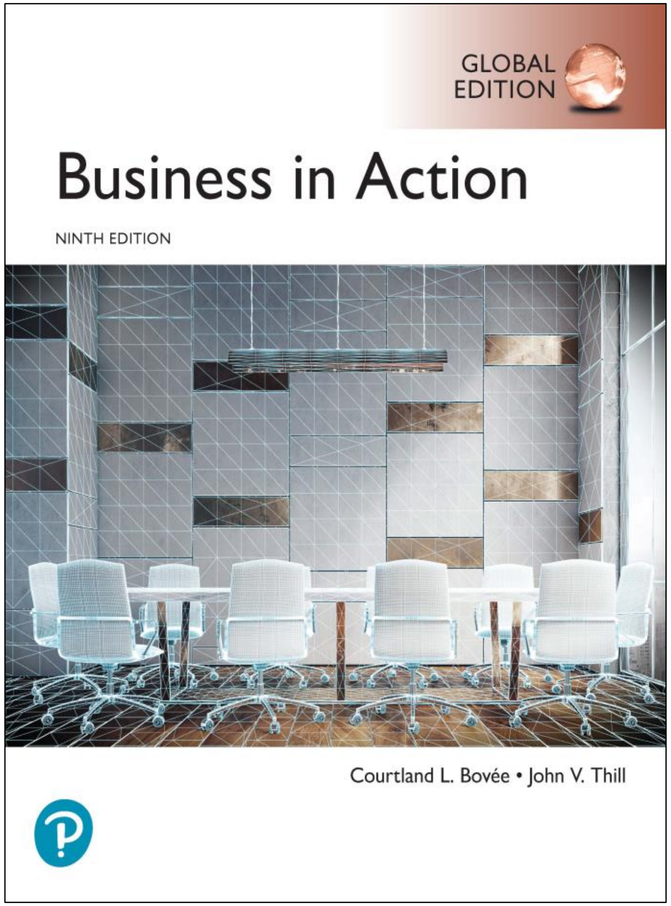
Online Session July 23, 2020

Business in Action: Thriving in the Digital Enterprise

Ninth Edition, Global Edition



Chapter 4

Business Ethics and Corporate Social Responsibility

Learning Objectives (1 of 2)

4.1 Discuss what it means to practice good business ethics, and highlight the forces that can influence ethical decision- making.

4.2 Define corporate social responsibility (CSR), and explain the difference between philanthropy and strategic CSR.

4.3 Distinguish among the four perspectives on corporate social responsibility.

4.4 Discuss the role of business in protecting the natural environment, and define sustainable development.

Learning Objectives (2 of 2)

4.5 Identify five fundamental consumer rights and the responsibility of business to respect them.

4.6 Explain the responsibilities businesses have toward their employees.

4.7 Identify two categories of ethical concerns with artificial intelligence.

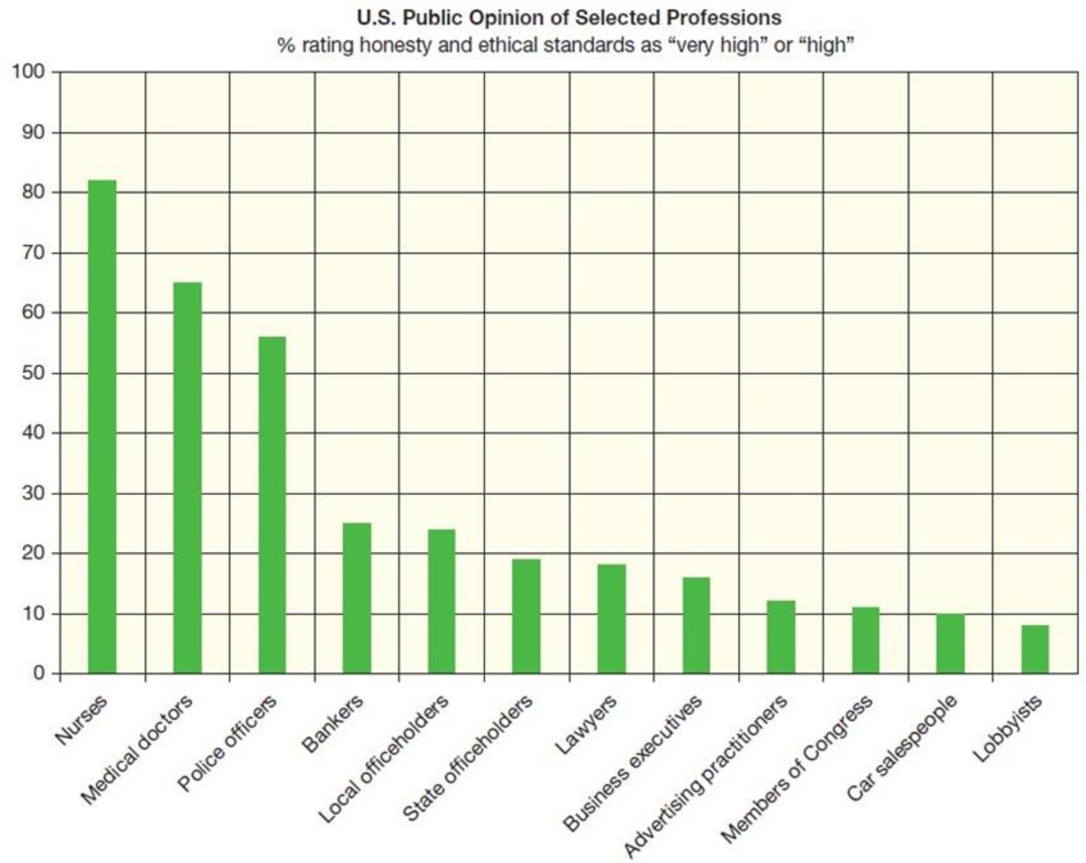
Introduction

As a future business leader, you will face some of the challenges discussed in this chapter, and your choices won’t always be easy. You may struggle to find ethical clarity in some situations or even to understand what your choices are and how each option might affect your company’s various stakeholders.

Ethics in Contemporary Business

- **Ethics**
  - The rules or standards governing the conduct of a person or group

Exhibit 4.1 Public Perceptions of Business Ethics



Source: Data from Megan Brenan, "Nurses Keep Healthy Leads as Most Honest, Ethical Profession," Gallup, 26 December 2017, www.gallup.com.

Defining Ethical Behavior (1 of 2)

- **Insider trading**
  - The use of unpublicized information that an individual gains from the course of his or her job to benefit from fluctuations in the stock market

Defining Ethical Behavior (2 of 2)

- **Competing fairly and honestly**
  - Businesses are expected to compete fairly
- **Communicating truthfully**
  - Communicating truthfully is a simple enough concept: Tell the truth, the whole truth, and nothing but the truth
- **Not causing harm to others**
  - All businesses have the capacity to cause harm to employees, customers, other companies, their communities, and investors

Strategies for Supporting Ethical Behavior

- **Code of ethics**
  – A written statement that sets forth the principles that guide an organization's decisions
- **Transparency**
  – The degree to which affected parties can observe relevant aspects of transactions or decisions
- **Whistle-blowing**
  – The disclosure by a company insider of information that exposes illegal or unethical behavior by others within the organization

Exhibit 4.2 Stakeholders’ Rights: A Difficult Balancing Act (1 of 2)

Decision	**Shareholders** (entrust money to the company in anticipation of a positive return on their investment)	**Employees** (devote time, energy, and creativity to the company’s success)	**Customers** (expect to receive quality products and maximum value for prices paid)	**Local Community** (can be affected both positively and negatively by the company’s presence and actions)	**Taxpayers** (affected indirectly by the amount of tax revenue that local, state, and federal governments get from the company)
Company decides to *offshore* some of its production to another country with lower labor costs; lays off significant number of employees	Stand to benefit from lower production costs, which could increase sales, profits, or both, probably leading to increases in share price	Some employees lose their jobs; morale likely to suffer among those who keep theirs	Benefit from lower prices	Suffers from loss of spendable income in the local economy and taxes paid to local government; exodus of employees can drive down home values	Might be hurt or helped by the move, depending on whether loss of income tax paid by U.S. employees is offset by increased income tax paid by the company, for example

Exhibit 4.2 Stakeholders’ Rights: A Difficult Balancing Act (2 of 2)

Company institutes a generous pay and benefits increase to improve employee morale	↓↑ Might be hurt in the short term as the stock market punishes the company for increasing its cost structure and diverting funds away from development; could help over the long term if the move boosts employee productivity	↑ Benefit from higher pay and more valuable benefits	↓↑ Could be hurt by higher prices if prices are raised to cover the added costs; could benefit from higher levels of employee satisfaction, leading to improved customer service	↑ Benefits from more spendable income in the local economy and taxes paid to local government; better employee benefits could also mean less drain on community resources such as health clinics	↑ Benefit from more money paid into government treasuries through higher income taxes
Company installs a multimillion-dollar waste water recirculation system that surpasses regulatory requirements; system will pay for itself in lower water bills, but not for 10 years	↓↑ Probably hurt as stock market punishes an investment with no immediate payback; increased goodwill and long-term cost savings help in years ahead	↓↑ Probably hurt in the short term as less money is available for raises and benefits; likely to benefit in the long term as the costs are recovered	↓ Hurt as higher costs are passed along as higher prices	↑ Helped by the company’s efforts to conserve a shared natural resource	↓ Hurt as the company writes off the cost of the system, thereby lowering the taxes it pays to the government

Guidelines for Making Ethical Decisions

- **Ethical dilemma**
  - A situation in which more than one side of an issue can be supported with valid ethical arguments
- **Conflicts of interest**
  - Situations in which competing loyalties can lead to ethical lapses, such as when a business decision may be influenced by the potential for personal gain.

Exhibit 4.3 Approaches to Resolving Ethical Dilemmas

Approach	Summary
Justice	Treat people equally or at least fairly in a way that makes rational and moral sense.
Utilitarianism	Choose the option that delivers the most good for the most people (or protects the most people from a negative outcome).
Individual rights	To the greatest possible extent, respect the rights of all individuals, particularly their right to control their own destinies.
Individual responsibilities	Focus on the ethical duties of the individuals involved in the situation.
The common good	Emphasize qualities and conditions that benefit the community as a whole, such as peace and public safety.
Virtue	Emphasize desirable character traits such as integrity and compassion.

Sources: Manuel Velasquez, Claire Andre, Thomas Shanks, S. J., and Michael J. Meyer, “Thinking Ethically: A Framework for Moral Decision Making,” Markkula Center for Applied Ethics, Santa Clara University, accessed 3 June 2009, www.scu.edu; Ben Rogers, “John Rawls,” The Guardian, 27 November 2002, www.guardian.co.uk; Irene Van Staveren, “Beyond Utilitarianism and Deontology: Ethics in Economics,” Review of Political Economy, January 2007, 21–35.

Finding the Right Answer When Faced with an Ethical Dilemma

- Make sure you frame the situation accurately, taking into account all relevant issues and questions.
- Identify all parties who might be affected by your decision.
- Be as objective as possible.

Corporate Social Responsibility

- **Corporate social responsibility (CSR)**
  - The idea that business has obligations to society beyond the pursuit of profits

The Relationship Between Business and Society (1 of 2)

- Consumers in contemporary societies **enjoy** and **expect** a wide range of benefits, from education and healthcare to credit and products that are safe to use.
- Profit-seeking companies are the **economic engine** that powers modern society; they generate the vast majority of the money in a nation’s economy.

The Relationship Between Business and Society (2 of 2)

- Much of what we consider when assessing a society's standard of living involves goods and services created by **profit-seeking** companies.
- Companies cannot hope to operate profitably without the many benefits provided by a **stable, functioning** society.

Philanthropy versus Strategic CSR

- **Philanthropy**
  - The donation of money, time, goods, or services to charitable, humanitarian, or educational institutions
- **Strategic CSR**
  - Social contributions that are directly aligned with a company's overall business strategy

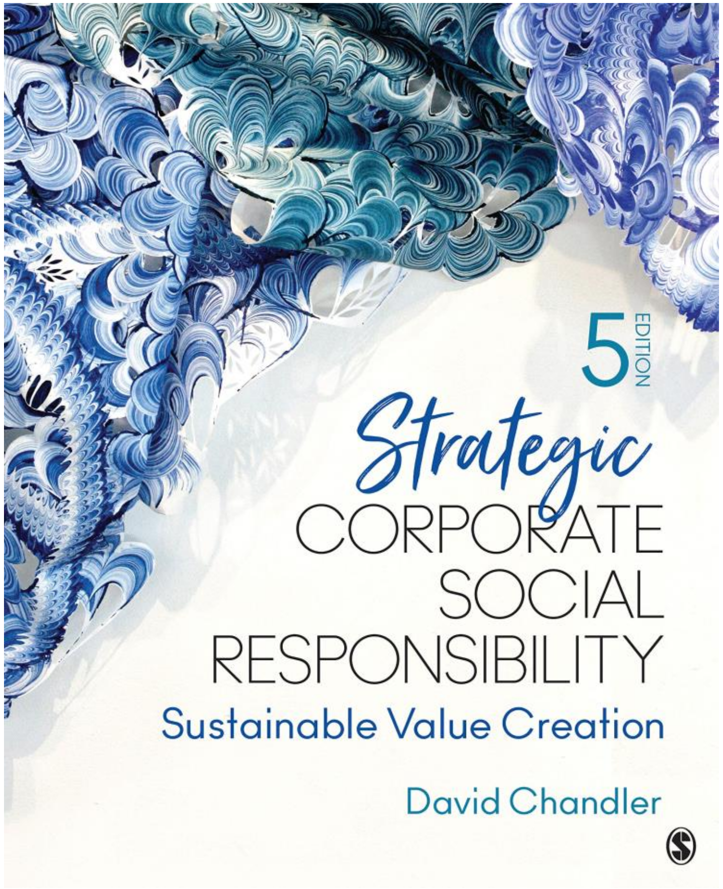
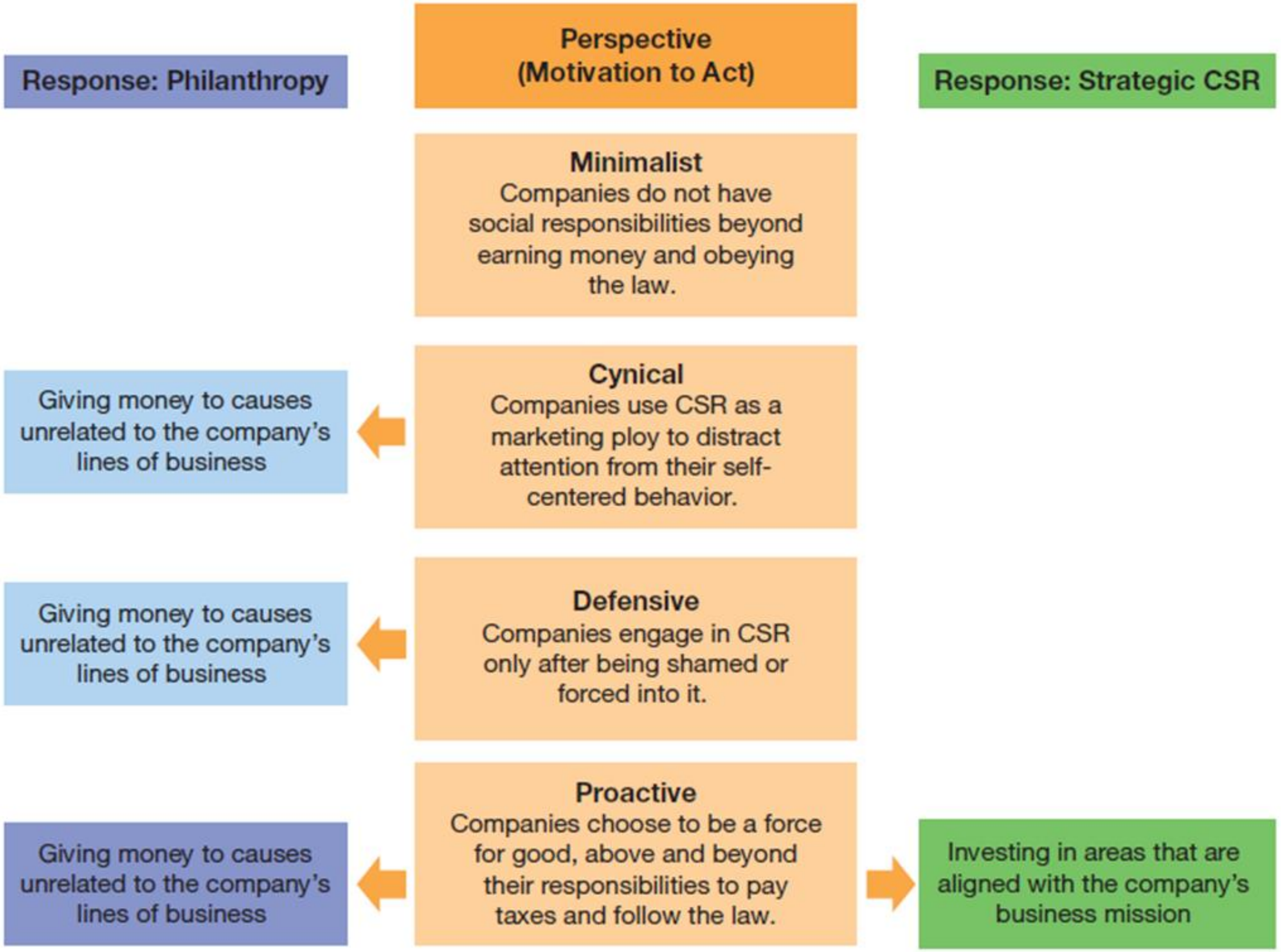


Exhibit 4.4 Perspectives on Corporate Social Responsibility



Defensive CSR

- **Nongovernmental organizations (NGOs)**
  - Nonprofit groups that provide charitable services or promote social and environmental causes

The Proactive Stance: Moving Beyond CSR

- **Purpose-driven business**
  - A company that aspires to accomplish more than just making money for owners and investors

Exhibit 4.5 Sources of Electricity in the United States (1 of 2)

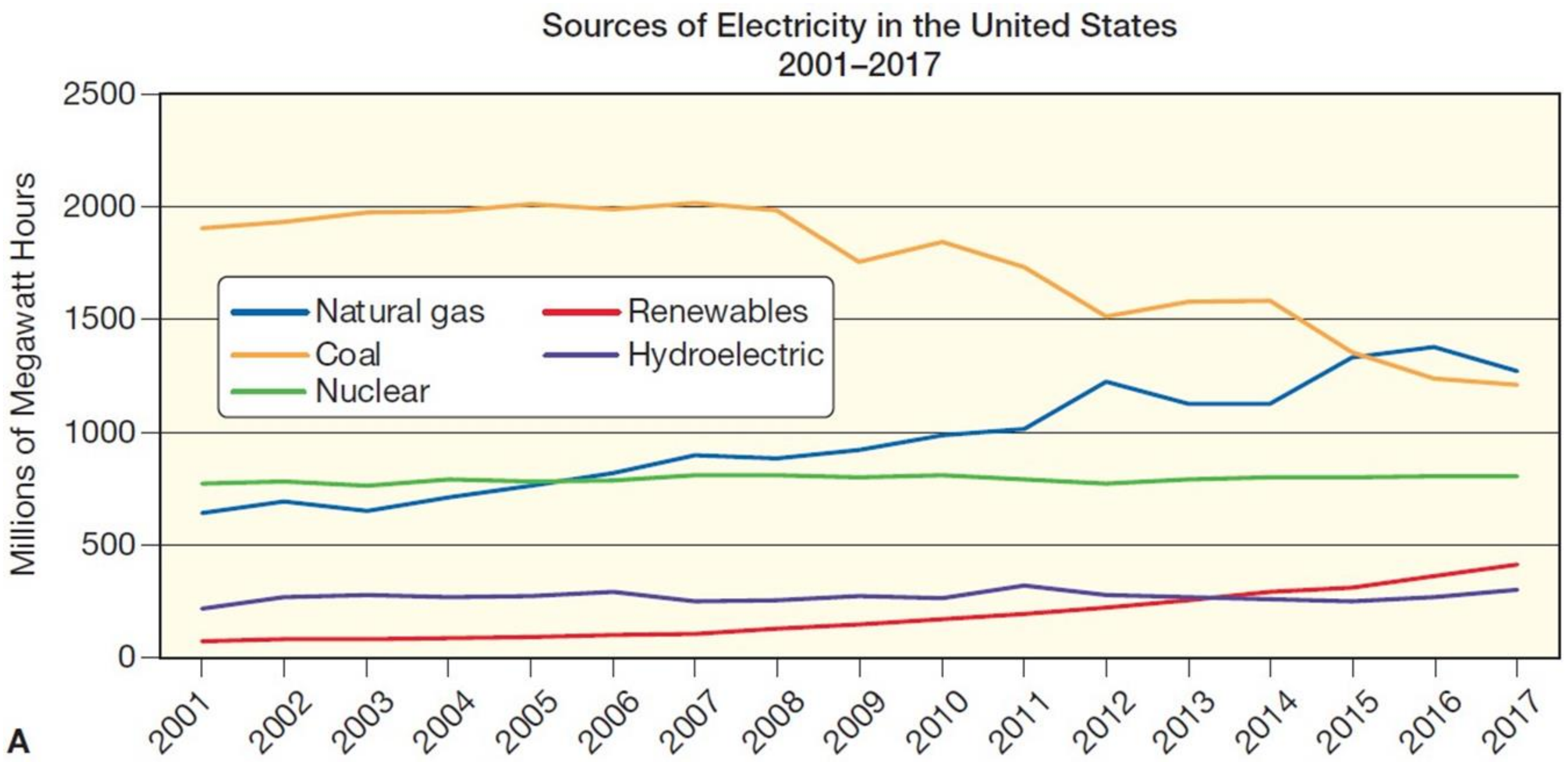
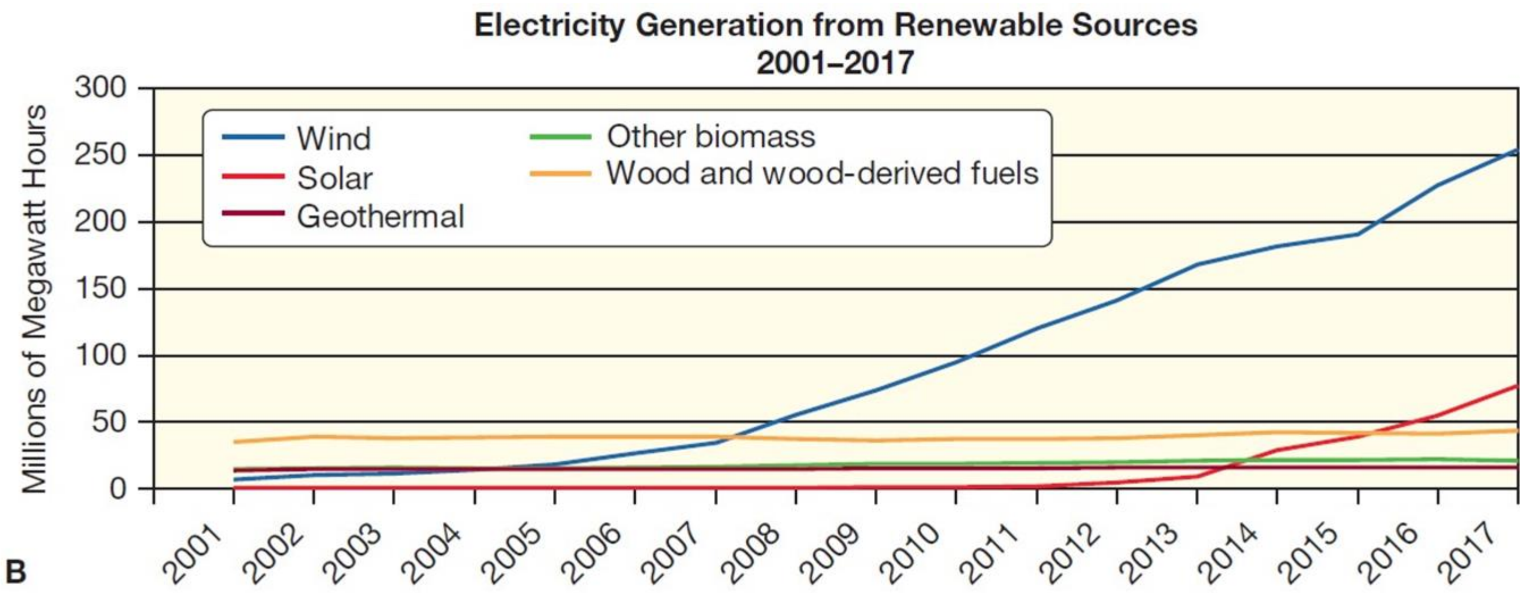


Exhibit 4.5 Sources of Electricity in the United States (2 of 2)



Note: Doesn’t include petroleum and other minor sources or hydroelectric pumped storage, which is used for load balancing. The data lines for renewables in Exhibit 4.5a and for solar in Exhibit 4.5b include only utility-scale solar prior to 2014; they include both utility-scale and small-scale solar for 2014 onward.

Source: Data from Electricity Data Browser, U.S. Energy Information Administration, www.eia.gov.

Exhibit 4.6 Major Federal Environmental Legislation (1 of 2)

- Clean Air Act (1963)
- Solid Waste Disposal Act (1965)
- National Environmental Policy Act (1969)
- Resource Recovery Act (1970)
- Clean Water Act (1972)
- Noise Control Act (1972)
- Endangered Species Act (1973)

Exhibit 4.6 Major Federal Environmental Legislation (2 of 2)

- Safe Drinking Water Act (1974)
- Toxic Substances Control Act (1976)
- Nuclear Waste Policy Act (1982)
- Marine Protection, Research, and Sanctuaries Act (1988)
- Oil Pollution Act (1990)
- Energy Independence and Security Act (2007)

The Trend Toward Sustainability

- **Sustainable development**
  - Operating business in a manner that minimizes pollution and resource depletion, ensuring that future generations will have vital resources

CSR: Consumers (1 of 2)

- **Consumerism**
  - A movement that pressures businesses to consider consumer needs and interests

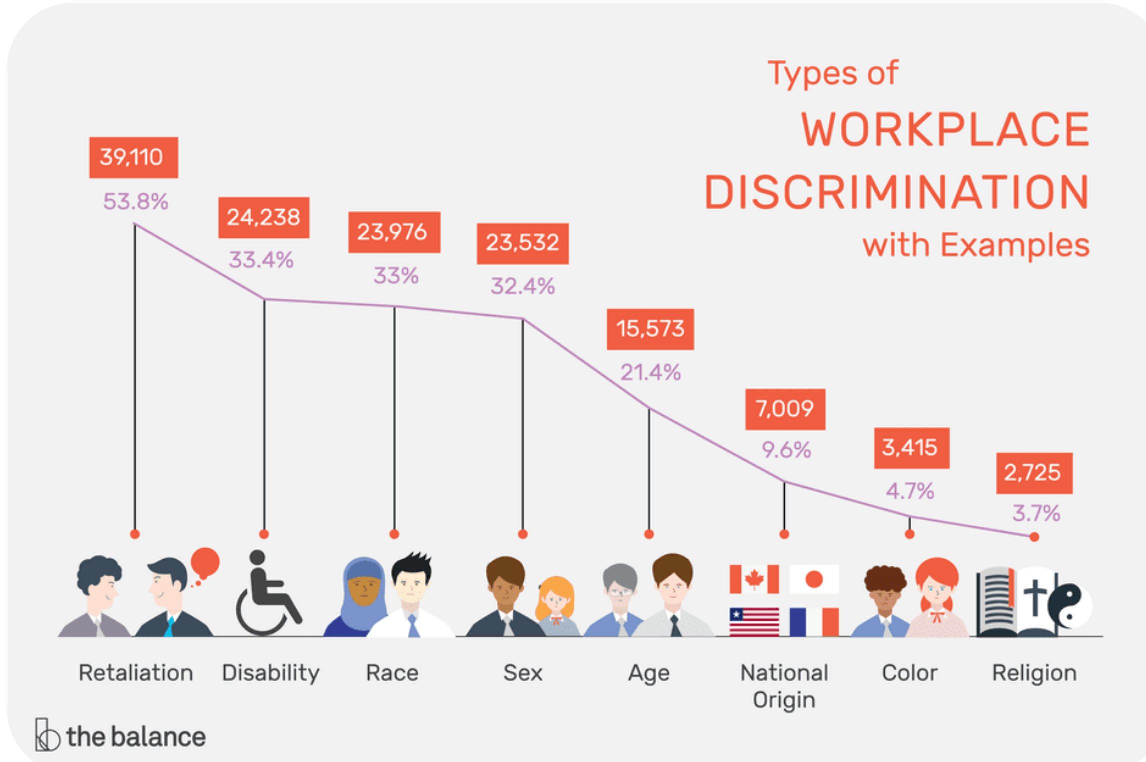
- **Identity theft**
  - A crime in which thieves steal personal information and use it to take out loans and commit other types of fraud

CSR: Consumers (2 of 2)

- The right to buy safe products—and to buy them safely
- The right to be informed
- The right to choose which products to buy
- The right to be heard

CSR: Employees (1 of 2)

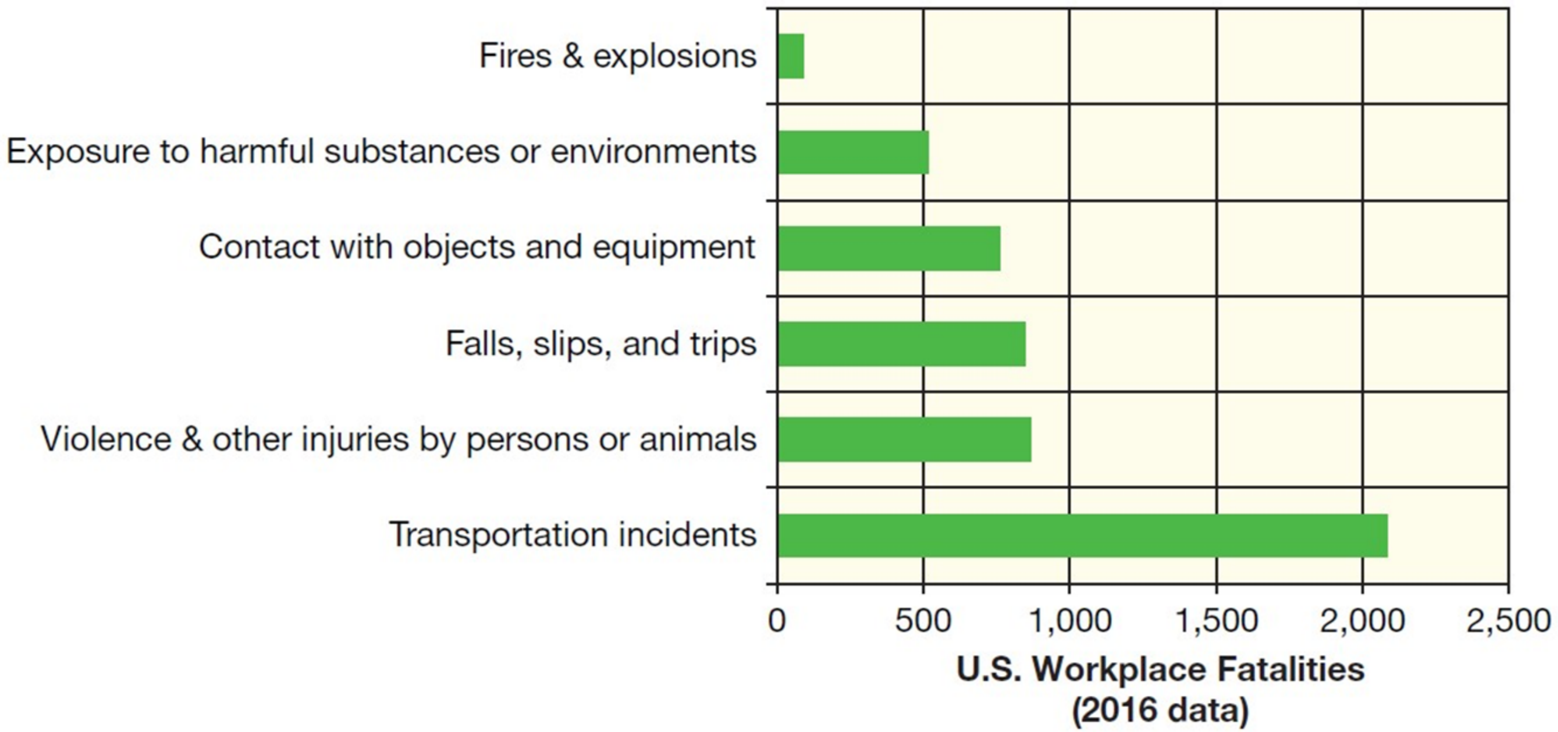
- **Discrimination**
  - In a social and economic sense, denial of opportunities to individuals on the basis of some characteristic that has no bearing on their ability to perform in a job



CSR: Employees (2 of 2)

- **Affirmative action**
  - Activities undertaken by businesses to recruit and promote members of groups whose economic progress has been hindered through either legal barriers or established practices

Exhibit 4.8 Fatal Occupational Injuries



Source: "Census of Fatal Occupational Injuries," U.S. Bureau of Labor Statistics, www.bls.gov.

Applying What You've Learned (1 of 2)

1. Discuss what it means to practice good business ethics, and highlight three factors that influence ethical decision making.
2. Define **corporate social responsibility (CSR)**, and explain the difference between philanthropy and strategic CSR.
3. Distinguish among the four perspectives on corporate social responsibility.
4. Discuss the role of business in protecting the natural environment, and define **sustainable development**.

Applying What You've Learned (2 of 2)

5. Identify five fundamental consumer rights and the responsibility of business to respect them.
6. Explain the responsibilities businesses have toward their employees.
7. Identify two categories of ethical concerns with artificial intelligence.