

# Business Ethics and Social Responsibility, issues in implementation

# Learning Objectives

- 1. Understand why business conduct is judged according to the ethical standards of society at large rather than a special set of ethical standards for businesses only.**
- 2. Understand the principal drivers of unethical strategies and business behavior.**
- 3. Learn why unethical business conduct can be very costly for a company's shareholders.**
- 4. Become familiar with the various approaches to managing a company's ethical conduct.**
- 5. Gain an understanding of the concepts of corporate social responsibility, corporate citizenship, and environmental sustainability.**
- 6. Become familiar with both the moral case and the business case for ethical business conduct and socially responsible business behavior.**

# Roadmap

- What Do We Mean by Business Ethics?
- Where Do Ethical Standards Come From – Are They Universal or Dependent on Local Norms and Situational Circumstances?
- The Three Categories of Management Morality
- Drivers of Unethical Strategies and Business Behavior
- Why Ethical Strategies Matter
- Approaches to Managing a Company's Ethical Conduct
- Social Responsibility and Corporate Citizenship Strategies

# Linking Strategy to Ethics and Social Responsibility

- Should there be a ***link between*** a company's ***efforts*** to ***craft and execute*** a winning ***strategy*** and its ***duties*** to
  - Conduct activities in an ethical manner?
  - Demonstrate socially responsible behavior by
    - Being a committed corporate citizen?
    - Attending to needs of non-owner stakeholders?
  - Limit its strategic initiatives to those meeting needs of consumers without depleting resources needed by future generations

# What Is Business Ethics?

- ***Business ethics*** involves applying general ethical principles and standards to behavior in business situations
- ***Ethical principles*** in business are not different from ethical principles in general
- ***Business actions*** are ***judged***
  - By general ethical standards of society
  - Not by a set of rules businesspeople apply to their own conduct

# How Do Ethical Standards Impact the Tasks of Crafting and Executing Strategy?

Two sets of questions must be considered by senior executives when reviewing a new strategic initiative

Is what we are proposing to do fully compliant with our code of ethical conduct? Is there anything here that could be considered ethically objectionable?

Is it apparent that this proposed action is in harmony with our core values? Are any conflicts or concerns evident?

**The *litmus test* of a company's code of ethics is the extent to which it is embraced in crafting strategy and in operating the business day to day!**

# Are Ethical Standards Universal or Dependent on Local Norms?

Three *schools of thought* regarding extent to which ethical standards can be applied . . .

1. Ethical Universalism
2. Ethical Relativism
3. Integrative Social Contracts Theory



# Concept of Ethical Universalism

- According to the *school of ethical universalism . . .*
  - Same standards of what is ethical and what is unethical resonate with peoples of most societies regardless of
    - Local traditions *and*
    - Cultural norms
  - Thus, common ethical standards can be used to judge conduct of personnel at companies operating in a variety of
    - Country markets *and*
    - Cultural circumstances

# Examples of Universal Ethical Principles or Norms

- Honesty
- Trustworthiness
- Respecting rights of others
- Practicing the Golden Rule
  - Treating people with dignity and respect
- Exercising due diligence in product safety
- Acting in a manner that does not
  - Harm others or
  - Pillages the environment

# What Is the Appeal of Ethical Universalism?

- ***clear boundaries*** on what constitutes
  - Ethical business behavior ***and***
  - Unethical business behavior
    - Regardless of what country a company is operating in
- When ***basic moral standards do not vary significantly from country to country***, a multinational company can
  - Apply a code of ethics more or less evenly across its worldwide operations
- Draws on ***collective views*** of multiple societies and cultures to ***place***

# Concept of Ethical Relativism

- According to the *school of ethical relativism* . . .
  - Different societies/cultures/countries
    - Put more/less emphasis on some values than others
    - Have different standards of right and wrong
    - Have different social mores and behavioral norms
  - What is ethical or unethical
    - Must be judged in light of local customs and social mores **and**
    - Can vary from one country to another

# Payment of Bribes and quid- pro- quo favours

- In some countries the payment of bribes and kickbacks is normal and customary; in other countries such payments are illegal
- Companies forbidding payment of bribes in their codes of ethics face a formidable challenge in countries where such payments are entrenched as a local custom
- Foreign Corrupt Practices Act prohibits U.S. companies from paying bribes *in all countries* where they do business even if such payments are customary

# Ethical Relativism = Multiple Sets of Ethical Standards

- Proponents of the ethical relativism school maintain there are
  - ***Few ethical absolutes*** to judge a company's conduct in various countries
  - Plenty of situations where ***ethical norms are contoured to fit***
    - *Local customs and traditions*
    - *Local beliefs about what is fair*
    - *Local standards of "right" and "wrong"*
- Ethical problems in business cannot be fully resolved without appealing to the shared convictions of the parties in question

# Drawbacks of Ethical Relativism

- The ***ethical relativism rule*** of “***when in Rome, do as the Romans do***” presents ***problems***
- Cannot assume that local ethical standards are an adequate guide to ethical behavior
  - What if local standards condone kickbacks and bribery?
  - What if local standards don't require safe working conditions?
  - What if local custom is to permit companies to engage in egregious pollution of the environment?
- From a global markets perspective, ethical relativism results in a maze of conflicting ethical standards for multinational companies wanting to address the issue of what ethical standards to enforce companywide

# Concept of Integrative Social Contracts Theory

- According to the ***integrative social contracts theory***, the ethical standards a company should try to uphold are governed by ***both***
  - A limited number of universal ethical principles that are widely recognized as putting legitimate ethical boundaries on actions and behavior ***in all situations***

***And***

- The circumstances of local cultures, traditions, and shared values that further prescribe what constitutes Ethically permissible behavior and What does not



# Appeal of Integrative Social Contracts Theory

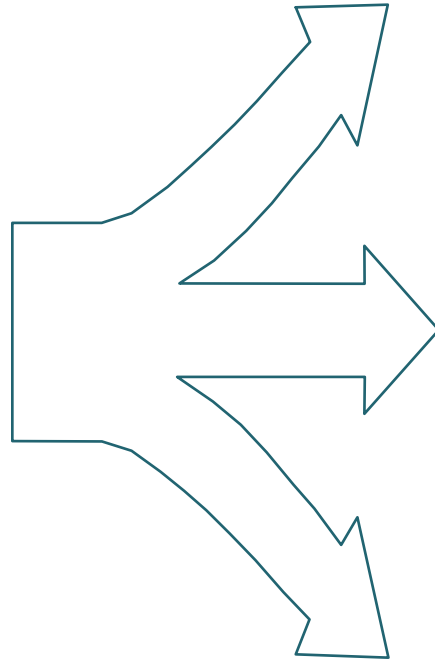
- Universal ethical principles establish “moral free space” based on the collective view of multiple societies and cultures
- Commonly held views about morality and ethical principles combine to form a “social contract” with society
- It is appropriate for societies or companies to go beyond universal ethical principles and specify local or second-order ethical norms
  - Where firms have developed ethical codes, the standards they call for provide appropriate ethical guidance

**Social contracts theory maintains *adherence to universal or first-order ethical norms* should always take *precedence over local or second-order norms!***

# Three Categories of Management Morality

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**The three  
types of  
managers  
as regards  
ethical and  
moral  
principles**



**Managers that  
are *moral***

**Managers that  
are *immoral***

**Managers that  
are *amoral***

# Characteristics of a Moral Manager

- Dedicated to high standards of ethical behavior in
  - Own actions
  - How the company's business is to be conducted
- Considers it important to
  - Be a steward of ethical behavior
  - Demonstrate ethical leadership
- Pursues business success
  - Within confines of both letter and spirit of laws
  - With a habit of operating well above what laws require

# Characteristics of an Immoral Manager

- Actively opposes ethical behavior in business
- Willfully ignores ethical principles in making decisions
- Views legal standards as barriers to overcome
- Pursues own self-interests
- Is an example of self-serving greed
- Ignores interests of others
- Focuses only on bottom line – making one's numbers
- Will trample on others to avoid being trampled upon

# Characteristics of an Intentionally Amoral Manager

- Believes business and ethics should not be mixed since different rules apply to
  - ❖ Business activities
  - ❖ Other realms of life
- Believes if a business-related action is legal then it is OK; ethical considerations in business activity don't matter and lie outside sphere of moral judgment
- Views ethical considerations as inappropriate for tough, competitive business world
- Concept of right and wrong is lawyer-driven (what can we get by with without running afoul of the law)

# Characteristics of an Unintentionally Amoral Manager

- Is blind to or casual about ethics of decision-making and business actions
- Displays lack of concern regarding whether ethics applies to company actions
- Sees self as well-intentioned or personally ethical
- Typical beliefs
  - Do what is necessary to comply with laws and regulations
  - Government provides legal framework stating what society will put up with—if it is not illegal, it is allowed

# Many Managers in the Global Business Community Are Unethical

- Evidence indicates *a sizable majority of managers are* either
  - ***Amoral***
  - or*
  - ***Immoral***
- Many reports indicate corruption is widespread across the world
- Corruption extends beyond bribes and favours

# What Are the Drivers of Unethical Strategies and Business Behavior?

- Large numbers of immoral and amoral business people
- Overzealous pursuit of personal gain, wealth, and other selfish interests
- Heavy pressures on company managers to meet or beat earnings targets
- Company cultures that place profits and good performance ahead of ethical behavior



# Overzealous Pursuit of Personal Gain, Wealth, and Selfish Interests

- People obsessed with wealth accumulation, greed, power, status, and other self-interests often
  - Push ethical principles aside in their quest for self gain
  - Exhibit no hesitation in by-passing the rules or doing whatever is necessary to achieve their goals (means justifying the end)
  - Engage in all kinds of unethical strategic maneuvers and behaviors

## Heavy Pressures on Company Managers to Meet or Beat Earnings Targets

- Managers often feel enormous *pressure to do whatever it takes* to deliver good financial performance
- Actions often taken by managers
  - Cut costs wherever savings show up immediately
  - Squeeze extra sales out of early deliveries
  - Engage in short-term maneuvers to make the numbers
  - Stretch rules to extreme, until limits of ethical conduct are overlooked
- Executives feel pressure to hit performance targets since their compensation depends heavily on company performance
- Fundamental problem with a “make the numbers” syndrome is that the Company does not create additional value for customers or improve its competitiveness

# Company Cultures that Put Bottom Line Ahead of Ethical Behavior

- In an ethically corrupt or amoral work climate, people have a company-approved license to
  - Ignore “what’s right”
  - Engage in most any behavior or employ most any strategy they think they can get away with
- Pressures to conform to cultural norms can prompt otherwise honorable people to
  - Make ethical mistakes
  - Succumb to the many opportunities to engage in unethical practices

# Why Ethical Strategies Matter

- An ***unethical strategy***

- Is morally wrong
- Reflects badly on the character of company personnel

- An ***ethical strategy*** is

- Good business
- In the best interest of shareholders

# Characteristics of Managers Committed to Ethical Approaches to Strategy-Making

- Possess ***strong moral character*** and deeply-ingrained ***ethical convictions***
- Are ***genuinely committed*** to certain core values and business practices
- Push for and support adoption of ***values statements/ethics codes*** that truly ***paint the white lines*** for a company's business practices
- Insist on ***strict ethics compliance***
- ***Expect company personnel to practice/display corporate values***
- ***Are a role model and walk the talk*** in
  - Displaying a company's stated core values
  - Living up to high ethical standards
- Consciously opt for ***strategic actions passing moral scrutiny***

# Business costs of Ethical failures

- Less damaging costs

- Civil penalties
  - Erosion in value of stock price
  - Government Fines and penalties

- Moderate damaging costs

- Legal and investigative costs incurred by company
  - Costs of remedial education and ethics training
  - Costs of corrective action
  - Administrative costs of future compliance

- More damaging costs

- Loss of customers
  - Loss of reputation and credibility
  - Higher employee turnover
  - Difficulty in recruiting talented employees
  - Lower employee productivity
  - Costs of requirement to comply with more stringent government regulations

# **Approaches to Managing a Company's Ethical Conduct**

**Unconcerned or Non-issue Approach**

**Damage Control Approach**

**Compliance Approach**

**Ethical Culture Approach**

# What Is Corporate Social Responsibility?

- The thesis underlying the concept of corporate social responsibility is that a company has a **duty** to
  - Be a good corporate citizen
  - Make a positive contribution to society, and
  - Actively work to improve the well-being of all stakeholders
    - Employees
    - Local communities
    - Environment
    - Customers and suppliers
    - Society at large



# Approaches to Managing Business Ethics

1. Non Concerned ( challenge: financial consequences and stakeholders' alienation)
2. Damage control Approach ( challenge: credibility problems, loss of reputation )
3. Compliance Approach ( Challenge: fosters what is not forbidden is allowed, no individual moral responsibility)
4. Ethical Culture approach( requires ethical induction , formal ethical management systems, reliance on peer pressure and culture norms to enforce ethical norms)

# What Does Acting in a Socially Responsible Manner Entail?

- The consensus view is that ***acting in a socially responsible manner*** means that ***a company should***
  - ❖ Operate in an ethical and honorable manner
  - ❖ Provide good working conditions for employees
  - ❖ Be a good steward of the environment
  - ❖ Actively work to better quality of life in
    - ★ Local communities where it operates and Society at large

# What Is a Social Responsibility Strategy?

**A company's *social responsibility strategy* consists of its actions to improve the well-being of all its stakeholder and to be a good corporate citizen in its contributions of**

- **Time**
- **Money**
- **Other resources**

# What Is an Environmental Sustainability Strategy?

**A company's *environmental sustainability strategy* consists of its actions to**

- Protect the environment,
- Provide for the longevity of natural resources,
- Maintain ecological support systems for future generations, and
- Guard against ultimate endangerment of the planet.

# Moral Case: Corporate Social Responsibility and Environmentally Sustainable Business Practices

- Businesses should promote the betterment of society, acting in ways to benefit all their stakeholders because
  - ***“It’s the right thing to do!”***
- Based on an implied ***social contract***, society
  - Grants a business the right to conduct its business affairs
  - Agrees not to unreasonably restrain a firm’s pursuit of a fair profit
- In return for a ***“license to operate,”*** a business should
  - Act as a responsible citizen
  - Do its fair share to promote the general welfare

# Business Case: Socially Responsible Behavior and Environmentally Sustainable Business Practices

- ***Generates internal benefits***
  - Enhances recruitment of quality employees
  - Increases retention of employees
  - Improves employee productivity
  - Lowers costs of recruitment and training
- ***Reduces risk of reputation-damaging incidents,*** leading to increased buyer patronage
- ***Works in best interest of shareholders***
  - Minimizes costly legal and regulatory actions
  - Provides for increased investments by socially conscious mutual funds and pension benefit managers
  - Focusing on environment issues may enhance earnings

# Considerations in Crafting Social Responsibility and Sustainability Strategies

- Match *social responsibility/sustainability strategy* to
  - Core values
  - Business mission
  - Overall strategy
- Make *social responsibility and/or environmentally sustainability a part of the company's mission and culture*
- Have *explicit social responsibility and/or environmentally sustainability objectives*
- Strive to craft *socially responsible and sustainability strategies* that will help the company achieve a competitive advantage