

BUSINESS ADMINISTRATIVE STUDIES

Chapter 5 – Business Ethics & Social Responsibility

Seminar Programme & Summary

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Programme:

- ❖ Introduction
- ❖ The Nature of Ethics in the Workplace
- ❖ The Nature of Social Responsibility
- ❖ Areas of Social Responsibility
- ❖ Implementing Social Responsibility Programs
- ❖ Interactive Activity / Case Study
- ❖ Closing Ceremonies

THE NATURE OF ETHICS IN THE WORKPLACE

- *ethics* are the individual standards or moral values regarding what is right and wrong or good and bad
- vary from person to person and culture to culture – based upon a society’s ideas of right and wrong
- within our own cultural standards, we develop our own values and morals
- e.g. in the Western society, we see theft and bribery as “bad”, while giving and patriotism are “good”
- *ethics* is therefore defined partially by individuals and partially by society as a whole
- we must also note that due to the vast differences within us as individuals, there is often more than one additional perspective
- e.g. people routinely take home supplies from work but are adamantly opposed to shoplifting
- e.g. some view themselves as law-abiding citizens but have radar detectors to avoid speeding tickets

Influences of Ethics

- **Families**
 - parents are perhaps the most influential factor upon an individual’s definition of *ethics*
 - values derived from religion, culture, or the environment are instilled with high priority when an individual is passing through the developmental stages
 - parents also strive to instill a work ethic or the idea that hard work results in rewards
 - motivational techniques: rewards; and example and leadership to instill values
- **Peers**
 - consistently gains more influence over the ethical definition of an individual as time progresses
 - values of the group become more important than those of the larger society (unfortunately, this often involves the minds of juvenile delinquents)
 - in business, many unethical behaviours are fostered by a company’s environment deemed as acceptable
- **Experiences**
 - can increase or decrease types of ethical behaviour and beliefs about what is right and wrong
 - e.g. a child punished for stealing likely not repeat the act
 - e.g. employees caught in white-collar crimes will likely never repeat the act
 - however, if one escapes unscathed after an act which violates ethical standards, he or she is bound to repeat it again in the hope of re-enjoying the benefits

Company Policies and Business Ethics

- in recent years, the public has become increasingly suspicious of businesses, specifically large businesses
- a recent survey showed that 45% of Canadians distrust business leaders (was 20% ten years ago)
- as a result, many businesses are now taking aggressive steps to unethical activities by encouraging employees to practise more acceptable behaviour
- top management must support ethical behaviour themselves
- many companies have implemented written codes of conduct that state the firm’s intent and how they intend to pursue their goals ethically
- written codes of conduct are becoming increasingly popular
- in 1997, two-thirds of Canada’s largest corporations had codes of ethical standards
- this is in part due to the urging of professional and regulatory bodies demanding ethical codes of conduct to be commonplace within member companies and corporations
- e.g. Canada Deposit Insurance Corporation and the Ontario Human Rights Commission
- some believe that ethical behaviour can be “taught” while working and some argue that it should be emphasized during education

THE NATURE OF SOCIAL RESPONSIBILITY

- *ethics* deal with how individuals behave within a business; *social responsibility* deals with how a business behaves as an entity to society
- *social responsibility* is also individualistic: a firm must be able to balance different commitments
- e.g. must satisfy investors by maximizing profits while satisfying customers by providing safe products
- a firm's *social responsibility* is mainly affected by its employees (especially top management)
- governments, investors, and consumers may intervene a firm's attitude towards *social responsibility*

AREAS OF SOCIAL RESPONSIBILITY

- companies must face four issues in defining its sense of *social responsibility*

Responsibility Towards the Environment

- **Air Pollution**
 - large amounts of emissions from automobiles and manufacturing plants such as carbon monoxide (CO) and other chemicals lower air quality
 - legislation forced many companies to install many expensive devices to limit the pollutants they emit into the atmosphere
 - *acid rain* → sulphur released by manufacturing and power plants (especially Midwestern United States) damage forests and streams $2\text{H}_2\text{O} + 2\text{S} \rightarrow 2\text{H}_2\text{S} + \text{O}_2$
 - current technologies to reduce sulphur *pollution* are too costly to be implemented
- **Water Pollution**
 - businesses and municipalities used to dump their waste into rivers, streams, and lakes without considering any consequences (e.g. damaging wildlife)
 - legislation is currently in force to prohibit water *pollution*
 - plants were built not to dispose any pollutants into nearby rivers
- **Land Pollution**
 - two key issues: a) restore the damaged land & b) prevent future damages
 - restoring damaged land is especially important in past strip mining sites (threatened safety of nearby residents)
 - in order to prevent future problems, several guidelines have come into place: changes in foresting practices, limit on types of mining, new forms of solid waste disposal, etc.
 - *recycling* is a new industry developed as part of increased consciousness of land *pollution*
 - *toxic waste* disposal is a very controversial issue – it has to be stored somewhere since they usually cannot be processed into harmless substances or destroyed
- under Canadian and Ontario Environmental Protection Acts, fines for a business firm who violates environmental laws may be fined as high as \$2 million per day
- Environmental Choice program sponsored by the federal government licenses products that meet environmental standards set by the Canadian Standards Association

Responsibility Towards Customers

- **Rights of Consumers**
 - businesses must pay attention to the rise of *consumerism*
 - in Canada, consumers have several rights:
 - the right to safe products

- e.g. a new paint sprayer must be safe to use for spraying paint, come with instructions on how to use it, and must have been properly tested by its manufacturer
- the right to be informed about all relevant aspects of a product
 - food products must list their ingredients
 - clothing must be labelled with information about its proper care
 - banks must tell you exactly how much interest you are paying on a loan
- the right to be heard
 - when companies refuse to respond to consumer complaints, consumer protection agencies such as the Better Business Bureau and consumer interest groups such as the Airline Passengers Association may intervene
- the right to choose what they buy
 - free and open competition among companies
 - any attempts by businesses to block competition may result in fines or other penalties
- **Unfair Pricing**
 - *collusion* is one way companies interfere with competition (illegal)

The Customer is King – Ten Points to Superb Customer Service

1. Customers are the most important people in our business.
2. Customers are not dependent on us - we are dependent on them.
3. Customers are not an interruption of our work; they are the purpose of it.
4. Customers do us an honour when they call. We are not doing them a favour by serving them.
5. Customers are part of our business, not outsiders. They are our guests.
6. Customers are not cold statistics or numbers. They are flesh and blood human beings with feelings and emotions like our own.
7. Customers are not someone to argue with or match wits with. Nobody ever won an argument with a customer.
8. Customers bring us their wants. It is our job to fill them.
9. Customers deserve the most courteous and attentive treatment we can give them.
10. Customers have the right to expect an employee to present a neat, clean appearance.

Figure 1.1 – The Customer is King

Responsibility Towards Employees

- a company that provides its employees with equal opportunities for rewards and advancement without regard to race, sex, or other irrelevant factors is meeting its social responsibilities
- some companies go beyond these legal requirements and hire the hard-core unemployed (people with little education and training and a history of unemployment) and those who are disabled
- firms must make sure that the workplace is safe (both physically and emotionally)
- e.g. physical safety – repair gas leak; emotional safety – intolerance of an abusive manager
- companies must also respect their employees' privacy
- Northern Telecom (Nortel) was sued for installing telephone bugs in one of its plants
- *whistle-blowers* try to end unethical behaviour in the firm, but often result in troubled situations (demoted or even fired)

Responsibility Towards Investors

- if the managers of a firm abuse its financial resources, the ultimate losers are the owners (investors), since they do not receive the earnings, dividends, etc.
- famous case: the Bre-X scandal – investors received irresponsible information from management

- **Improper Financial Management**
 - executives pay themselves outlandish salaries, spending huge amounts of company money for their own personal comfort, etc.
 - trying to force a management changeover is difficult and may drive down stock prices
- **Cheque Kiting**
 - writing a cheque against money that has not yet arrived at the bank on which it is drawn
- **Insider Trading**
 - using confidential company information (such as mergers & acquisitions) for personal gain
- **Misrepresentation of Finances**
 - corporations are required to follow Generally Accepted Accounting Principles (GAAP)
 - when managers project profits far in excess of what they truly expect to earn, the company may be charged misrepresenting their finances to outsiders

IMPLEMENTING SOCIAL RESPONSIBILITY PROGRAMS

- *social responsibility* programs and the use/implementation of them differ greatly from company to company and from person to person
- some believe that *social responsibility* programs should not be used if they cut into profits to investors
- some believe that *social responsibility* programs should take a front seat to big business profits
- people who are concerned for the welfare of the general population believe that businesses lack the knowledge and experience necessary for some *social responsibility* programs (e.g. cleaning a polluted river) and that they should let technical experts decide the best course of action for such programs
- supporters of corporate *social responsibility* strongly believe that since most of the problems that *social responsibility* programs are designed to fix have been caused by the poor business practices of large corporations, why not let them use their vast resources to fix the damage they caused?
- a recent study done by the Centre for Corporate Social Performance and Ethics at the University of Toronto, designing and applying a *social responsibility* rating system for companies, pointed to the fact that the companies who scored the highest marks on questions of *ethics* and *social responsibility* had the greatest financial performance

Approaches to Social Responsibility

- 3 main approaches companies utilize when making decisions about *social responsibility*
- **Social-Obligation Approach**
 - a very conservative approach to *social responsibility*
 - profits need not be spent on social programs unless forced to by the government
 - when the government requires that a company must meet some social obligations, the company will do the bare minimum required by the law and will not spend profits to exceed that of which is required by the law
 - e.g. tobacco companies did not halt television advertising nor did they attach warning labels to cigarette containers until the government passed a law requiring to do so
 - these same companies then go to countries where there is no requirement to warn the public about the dangers of smoking, thus allowing them to utilize television advertising and packages without warning labels, and make absolutely no mention to the public about the dangerous health hazards of smoking
- **Social-Reaction Approach**
 - a company may go beyond, in terms of *social responsibility* programs, that of which is required under law only if requested to do so by the general public

- most companies either match employee donations to charitable causes, sponsor local sports teams, or donate large sums of money to specific charities, but only if approached by a third party requesting to do so
- e.g. a company may sponsor a local hockey team only if that hockey team comes to them first and asks specifically to be sponsored
- **Social-Response Approach**
 - a more liberal minded approach than the *social-obligation* or *social-reaction* approaches
 - companies actively seek and participate in ways to develop the well being of society (they donate to charities or sponsor local sports teams without any prompting from an outside organization)
 - e.g. McDonald's has established the Ronald McDonald House, for seriously ill children hospitalized away from home, of its own accord and without any prompting or pushing from the public
 - due to recent government cutbacks, groups which used to receive government funding for their social programs now have to turn to corporate Canada through proactive donations from large businesses
 - the most popular and widely used form of *social responsibility* programs is the donation of a portion of a corporation's profits to charity
 - Since it is difficult for firms to decide which charity receives the money and which one doesn't, programs such as the United Way have been setup
 - the United Way receives relatively large donations from corporations and then disseminates that money to numerous smaller charities, making it a united front of charities, hence the name United Way
 - according to a Decima Research survey, 80% of Canadians feel that businesses should donate some of their profits to contribute to social causes
 - recent studies have shown that corporations are only responsible for ten percent of all money donated to charity, and that on average, a single corporation donates less than one half of one percent of pre-tax profits to charity

Managing Social Responsibility Programs

- business managers must take four simple steps to foster *social responsibility*
- **1. Top Management Support**
 - top managers such as CEOs and Presidents must make a clear decision as to whether or not they want to pursue stronger *social responsibility* programs
 - they must then develop a policy statement that outlines their commitment
- **2. Strategic Planning**
 - a committee comprised of several top managers must outline strategic plans to be undertaken in order to outline the level of support to be directed towards social programs
 - Should the corporation donate profits? How much do we donate? To whom does the money go to? What programs do we most want to support? These are all questions that strategic plans must answer
- **3. Appointment of a Director**
 - must appoint an executive in charge of directing the firm's *social responsibility* programs
 - may choose to create an entirely separate position or the executive chosen may absorb these duties in addition to his /her regular employment duties
- **4. Social Audit**
 - the firm should conduct *social audits* on a regular basis to monitor the failure or success enjoyed by the firm in developing its *social responsibility* programs

Social Responsibility and the Small Business

- small businesses may also face the same challenges that a large business does when it comes to business *ethics* and *social responsibility*
- a small business can pad its income statement just the same as a large corporation can
- corporations may do it to ensure satisfied shareholders or investors, while small businesses might do it to assist it in getting a bank loan approved

Whether large or small, organizations and the managers of those organizations constantly face moral questions of business *ethics* and *social responsibility*. The key to business success is to decide in advance how to respond to those issues, whether to be ethical or socially responsible as possible or to forget about *ethics* and *social responsibility*, and concentrate solely on increasing profits instead.

INTERACTIVE ACTIVITY: THE NIKE “BAD AIR” DEBATE / CASE STUDY

Instructions

1. The class will be divided into two teams. Team #1 will represent the Nike Management Team (pro side) and Team #2 will represent the Coalition of Global Workers (con side).
2. Each half of the class will receive an information package on Nike’s social responsibility programs. The information package will contain a general background information sheet and an opinion for and against Nike’s activities. It is recommended that each team make notes on their position and be prepared to argue their side in front of the remainder of the class.
3. The debate will consist of three rounds. During the first round, a representative from the pro side will present several arguments and supporting evidence followed by the same address from the con side. The second and third rounds are similar to the first round, except that the presenters from each team must be different and rebuttals to the points stated by the opposing team will now be allowed.
4. The seminar presenters, as well as Mr. Pollock, will determine the winning team. The winners will then be awarded and recognized during Closing Ceremonies.

Background Information

The last 30 years have seen tremendous changes in the production of sports shoes. When the costs of production began to rise in the United States and Europe, and workers organized and exercised collective bargaining power, sports shoe companies relocated their factories or sought subcontractors in Asia where wages were much lower and where systematic repression of labor movements promised a 'docile' workforce. Companies like Nike and Reebok began to subcontract to medium and small-scale companies in East Asia, particularly Taiwan and South Korea.

Before the arrival of these sports shoe multinationals in China, the shoe industry was based on state-owned enterprises producing for the domestic market. However, since the 'opening up' of the economy after 1984, there was an influx of Hong Kong and Taiwanese capital into labor-intensive industries such as sports shoes. Hong Kong and Taiwanese companies established new factories in China, which often meant the partial or complete closure of factories back home. Some of these new investors in China formed joint ventures with state-owned enterprises or local governments, while others set up 100 percent foreign-owned factories.

Companies like Nike and Reebok benefit in every way because they do not have to deal with production: they distance themselves through subcontracting, benefiting from low production costs without any direct lines of responsibility. Subcontracting also allows these sports shoe multinationals to respond quickly to

changing styles and fashions, while passing on all of the uncertainty and insecurity to their subcontractors and ultimately to the workers themselves.

With little or no notice, the multinationals can change the order and demand a different style of shoe, forcing the subcontractor to make rapid changes in their production set-up. Everything must be done very quickly, forcing the workers to work hard and fast, and to put in excessive amounts of overtime if they want to keep their jobs.

Poor conditions in the factory are not simply the result of having a particularly harsh factory owner. It is actually the multinationals, not the subcontractors that ultimately set the pace of production as well as the wages of the workers. If a subcontractor wants to stay in business, he must accept the timeline set by the multinational and accept the price the multinational is willing to pay per shoe. In addition, when the multinationals squeeze the subcontractors, the subcontractors squeeze the workers.

This transfer of responsibility results in excess undue stress for the individual workers who in addition to the stress suffer from below par compensation, lack of proper working conditions and inflexible management.

Following international investigative reports, Nike has established a Code of Conduct, which its contracted manufacturers must abide to. Recent reports suggest the imitative has had limited impact upon the often ruthless factory management. Nike has repeatedly defended its policies in the public eye stating that they have committed no wrong and that they enforce their Code of Conduct as effectively as is humanly possible.

GLOSSARY

Key Terms

- *ethics* – individual standards and morals regarding what is right and wrong or good and bad
- *social responsibility* – a business’s collective code of ethical behaviour towards the environment, its customers, its employees, and its investors
- *pollution* – injection of harmful substances into the environment
- *acid rain* – a form of pollution formed by the emission of sulphur into the air by Midwestern power and manufacturing plants
- *recycling* – the re-conversion of waste materials into useful products
- *toxic waste* – pollution resulting from the emission of chemical and/or radioactive by-products of various manufacturing processes into the air, water, or land
- *consumerism* – a social movement that seeks to protect and expand the rights of consumers in their dealings with businesses
- *collusion* – an illegal agreement among companies in an industry to “fix” prices for their products
- *whistle-blower* – an individual who calls attention to an unethical, illegal, and/or socially irresponsible practice on the part of a business or other organization
- *cheque kiting* – the illegal practice of writing cheques against money that has not yet arrived at the bank on which the cheque has been written, relying on that money arriving before the cheque clears
- *insider trading* – use of confidential information to gain from the purchase or sale of stocks
- *social-obligation approach* – a conservative approach to social responsibility in which a company does only the minimum required by law
- *social-reaction approach* – a moderate approach to social responsibility in which a company sometimes goes beyond the minimum required by law on request

- *social-response approach* – a liberal approach to social responsibility in which a company actively seeks opportunities to contribute to the well-being of society
- *social audit* – a systematic analysis of how a firm is using funds earmarked for social responsibility goals and how effective these expenditures have been

Remember ... this is only a summary. Please refer to the textbook for testing purposes!
Thank you ... now sit back, relax, and enjoy the seminar presentation !!

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