Chapter 4
Business Ethics & Social Responsibility

Lawyers’ houses are built on the heads of fools.
Anonymous

“I had ethical momentum, but I was unable to sustain it.”
Compare Views

“The one and only social responsibility of business is to increase its profits.”
Milton Friedman (b. 1912), Nobel Laureate in Economics

“The business of business is serving society, not just making money.”
Dayton Hudson Corporate Constitution
What is Ethics?

- *Ethics* is the study of how people *should* act
- *Ethics* also refers to the values and beliefs related to the nature of human conduct
  - Based on ethical standards or moral orientation
- *Business ethics*: business conduct that seeks to balance the values of society with the goal of profitable operation
What are Ethical Standards?

- **Positivist view** asserts that moral standards are codified, or stated, in positive law
  - Thus, if an act is legal, the act must be ethical
- **Natural law theory** asserts that moral standards are universal and cannot be changed or modified by law
  - Thus, these standards should be followed even if the standards are greater than the law requires
• **Divine Command:** Do what the Bible tell you
• **Ethics of Conscience:** Follow your conscience
• **Ethical Egoism:** First do what’s best for yourself
  – Ayn Rand – “The Ethics of Selfishness”
• **Duty Ethics:** Do the right thing
  – Immanuel Kant’s categorical imperative
• **Ethics of Respect:** Show respect (don’t dis’ me)
• **Ethics of Rights:** Everyone has inalienable rights
• **Utilitarianism:** Do what is best for the most
• **Ethics of Justice:** Do what is fair
• **Virtue Ethics:** Be a good person
Recognizing & Resolving Ethical Dilemmas

INEVITABLE INTERSECTION on the ROAD of LIFE...

MORALLY RIGHT

LEGALLY RIGHT
Ethical reasoning

- **Utilitarianism** (Bentham & Mill) holds that all decisions should be evaluated to the utility they create – the good of the many over the good of the one or the few; a *cost/benefit* analysis

- **Duty-based Ethics** (Kant’s categorical imperative) holds that one should not act unless you would be willing for all others to act similarly
Ethical reasoning

- **Situational ethics or moral relativism** examines the circumstances of an act to determine whether the act was, or was not, ethical.
- **The business stakeholder standard of behavior** determines whether an act is, or is not, ethical by examining the interests of various stakeholders with regard to a particular business action.
Too Complicated?

"You think too much, Neal."

Pamela S. Evers, Reindance Productions, LLC 2009
“Easier” Methods of Resolving Ethical Dilemmas

• Laura Nash Model:
  – Have you defined the problem accurately?
  – How would you define the problem if you stood on the other side of the fence?
  – How did this situation occur in the first place?
  – What is your intention in making this decision?
  – How does the intention compare with probable results?
• Laura Nash Model (cont):
  – Can you discuss your decision with the affected parties?
  – Are you confident that your position will be as valid over a long period of time as it seems now?
  – Could you discuss your decision with your supervisor, coworkers, officers, board, friends, and family?
  – Whom could your decision or action injure?
“Easier” Methods of Resolving Ethical Dilemmas

- **Blanchard & Peale Three-Part Test:**
  - Is it legal? Positive law approach
  - Is it balanced? Stakeholder standard
  - How does it make me feel? Moral relativism

- **Front Page of the Newspaper Test:**
  - If considering a business action, would you like to see it on the front page of the newspaper?
Think About These Situations And The Related Ethical Issues

- Discrimination
- Stealing: food, a car
- Disposing of hazardous waste
- Writing a new employee policy
- Expanding or closing your business
- Dealing with an aggressive competitor
- Firing an employee
Responsibility to Employees & Shareholders

- Apply various models for ethical decision-making to a company’s employment decisions
  - Safety requirements (Johnson Controls excluded women from manufacturing line at battery plant)
  - Executive compensation compared to hourly compensation
  - Plant closings
  - Outsourcing
  - Whistleblowers

Whistleblowers Cooper, Rowley, and Watkins
Responsibility to Customers & Community

• Apply various models for ethical decision-making to a company’s product design decisions
  – Product safety & acceptable risk
  – Excess packaging becomes waste
  – Using harmful raw materials
  – Outsourcing
Responsibility Overseas

- Apply various models for ethical decision-making to a company’s international operations
  - Union Carbide and the Bhopal disaster that Dow Chemical (successor corporation) continues
  - Texaco’s environmental disaster in Ecuador
  - Apparel manufacturers and child labor issues

Texaco’s oil impacts
Ecuadoran child;
Aguinda v Texaco
Business Ethics is Important

- **Trust** -- business activity is based upon trust whether between employer and employee, company and consumer, supplier and manufacturer, government and business

- **Reputation** -- a good reputation is a valuable commodity (e.g., goodwill)

- **Law** -- unethical business activity ultimately, at least in theory, is limited by government, consumers, and other stakeholders who use the courts and legislation to limit unethical behavior
Ethical Businesses

• Evidence does exist that good ethical business is profitable!

• “Ethics and competitiveness are inseparable.”

  John Akers, former chairman, IBM

Ethical Corporations

IKEA
Trader Joe’s
AFLAC
Eaton Corp.
Stonyfield Farms
Salesforce.com

Green Mountain Coffee Roasters
Advanced Micro Devices
NIKE
Motorola
Intel
International Business Machines
Agilent Technologies
Timberland Company
Starbucks
General Mills
Pitney Bowes
Applied Materials
Texas Instruments
Patagonia
The bar chart shows the percentage of British citizens that engaged in the activity. About 15% of British citizens are “activists,” doing 5 or more activities within a year.
“The time is always right to do what is right.”

Martin Luther King, Jr.

Credits: Michelle Shocked