

Chapter 4

Business Ethics and Social Responsibility

Learning Objectives

After completing this chapter, you'll be able to:

1. **Explain** business ethics.
2. **Give** reasons why ethical behavior is good for business.
3. **Define** social responsibility.
4. **Describe** the social responsibilities of businesses.

Why It's Important

Understanding business ethics and social responsibility informs you of your rights as a consumer, employee, and citizen.

Key Words

ethics

business ethics

sweatshops

Occupational Safety and Health Administration

code of ethics

social responsibility

conflict of interest

Food and Drug

Administration

Equal Pay Act

Environmental Protection Agency

BusinessWeek Feature Story



Commerce Reweaves the Social Fabric

Companies Apply Money and Expertise to Social Issues. It's Futuretown, USA, circa 2020. The kids attend for-profit schools; the teachers get their technology training from computer specialists dispatched by IBM. Young teachers and other budding professionals seeking affordable housing flock to the Wal-Mart Riverview apartment complex. Elderly residents get their hearing checked at EarCare clinics funded by Abbott Laboratories, makers of the Ensure nutritional supplement for seniors. Culture vultures gawk at contemporary sculpture at the local American Express Museum of Modern Art.

Source: Excerpted with permission from "Commerce Reweaves the Social Fabric," *BusinessWeek Online*, August 28, 2000.

An Extension Activity

Some corporations offer employees the opportunity to join volunteer programs during the workweek. Find a company that encourages its employees to volunteer as an alternative to the workplace during the year.



To learn more about corporate citizenship, visit the *Introduction to Business* Web site at www.introbus.glencoe.com, and click on *BusinessWeek* Feature Story, Chapter 4.

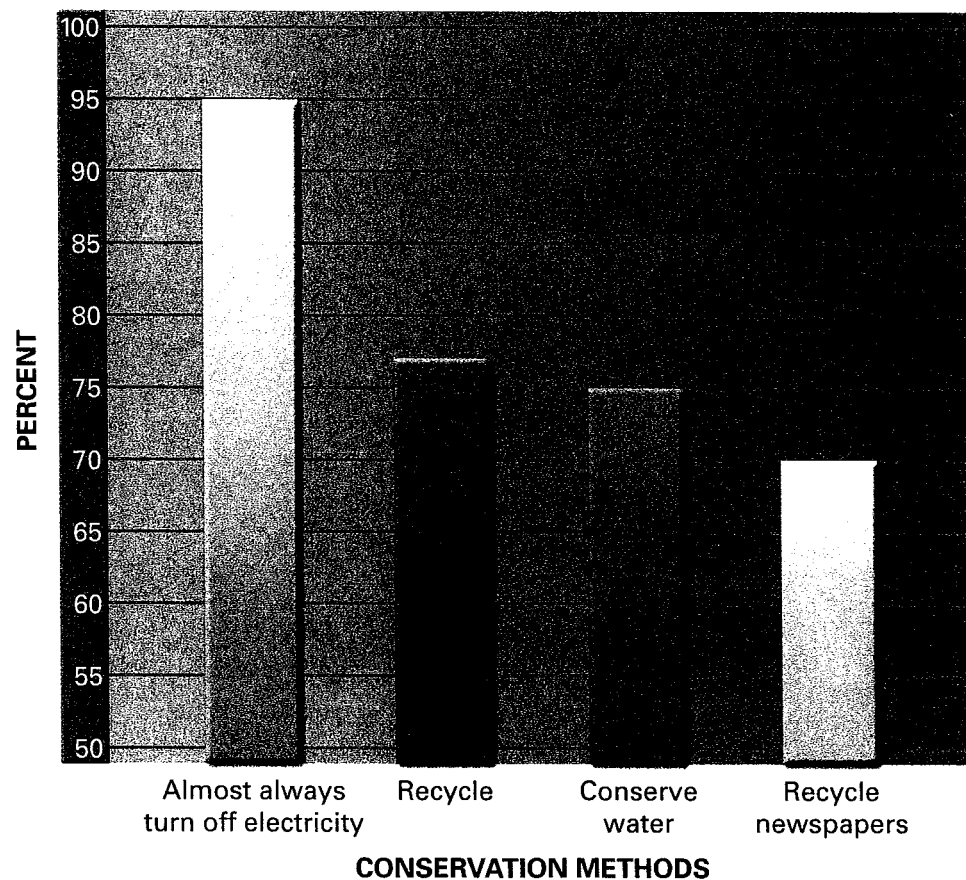
Who Benefits From Business?

Maybe you've heard about auto mechanics that cheat customers by making unnecessary repairs. If they get caught they might be sued, lose their business license, or even go to jail. Even if they don't face legal action, they stand to lose customers and their reputation. Businesses are active and involved in a responsible and fair way in the lives of individual employees and their communities. Their responsibility goes beyond producing goods and services, paying taxes, and providing jobs. Figure 4.1 illustrates conservation methods that help the community and environment.

ENVIRONMENTALLY FRIENDLY

➔ Ethics is the set of principles by which you conduct yourself in society.

How often do you help the environment? What do you do?



Source: The NPD Group

What Is Ethics?

Mom complains about all of the mail order catalogs and e-mail advertisements she receives. She didn't ask for them. Somehow or another her name was part of a mailing list, which was sold to these other firms. She is concerned about her privacy. Then Dad is concerned that one of his colleagues at work spends too much time writing personal e-mails instead of completing work on time. What do all of these things have in common? All of these deal with business ethics.

Ethics is the set of moral principles by which people conduct themselves personally, socially, or professionally. For example, you don't cheat on a test or steal clothing because of your personal honor and integrity. For the good of society, for example, you recycle to take care of the environment. In business, people create a code of business ethics. **Business ethics** is a set of laws about how a business should conduct itself. In general, for any business to be successful, it must operate legally and humanely.

Legal Responsibility

On March 26, 1911, 146 workers—mostly young Eastern European women—died in a fire at the Triangle Shirtwaist Factory Company in New York City. This disaster is one of the worst industrial tragedies in U.S. history. The business's inadequate exit doors and fire escapes and overcrowded factory led to the deaths of the Triangle workers, who jumped ten stories to their death or burned in the fire. This calamity sparked the nation's attention to examine **sweatshops**. Sweatshops are factories that have unsafe working conditions, treat workers badly, and pay poorly.

The U.S. government sets up independent agencies to protect society. The **Occupational Safety and Health Administration** (OSHA) is a division of the Department of Labor that sets and enforces work-related health and safety rules. Other independent agencies protect consumers, monitor broadcast communications, and address discrimination in the workplace.

Businesses that fail to follow laws are subject to fines, lawsuits, and new regulations. Most businesses police themselves by distributing codes of ethics. A **code of ethics** is a set of strict guidelines for maintaining ethics in the workplace. Professional groups such as doctors, lawyers, journalists, and teachers have their own code of ethics. Individual companies usually have their own codes as well. A code of ethics can cover everything from employee behavior to environmental safety. Businesses that regulate themselves are able to operate more freely.

Real-World Application

part 1 of 2



OFF THE BEATEN PATH

Up for a longboard surf contest at Guéthary? What about mountaineering at Yosemite? Before you surf or climb, Patagonia—the outdoors outfitter—asks you to first remember nature.

Why should a company make a vested interest in nature over its product?

continued on p. 53

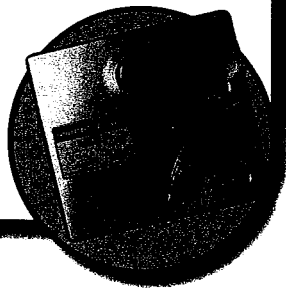
Technology Toolkit

Web-Spun Tunes

Millions of people use their computer's hard drive as a database of personal music selections. Using file-sharing software on the Web downloads a copy of a song. The key to this trend is "player" software. The software allows users to transform the bulky music files on their CDs into a compressed file format called MP3—a process known as "ripping." Music sharing operates on the idea of peer-to-peer computing. Every computer becomes both a sender and receiver of information.

Critical Thinking

How will artists make money if people download music?



Ethics as Good Business

Unethical business practices might affect your business in more ways than one. If you violate government regulations you can be fined or go to jail. If you violate a company code of ethics, you might be fired or lose your license. However, not all unethical practices are covered by the law and, even if they are, you may not get caught for violating the law. Even so, unethical business practices might affect your business indirectly.

Suppose you own an auto body paint shop. To increase your profits you charge top price and use the cheapest paint. One of your customers complains but you don't care because she has already paid. What's one customer, right? The fact is most businesses (especially small businesses) rely on repeat customers and word-of-mouth to get new customers. The amount you make in profits from one unhappy customer translates into a lot more in lost business.

Treating employees unethically can also backfire. Suppose you manage a small film distribution company. You hire Jaime fresh out of business school to run the office. You teach him how to use the computer system, how to deal with customers, and how the business works. You also pay him poorly, make him do all your work for you, and treat him like a doormat. The first

chance Jaime gets, he quits and ends up being hired by one of your competitors. You now have to retrain a new employee to take his place. Meanwhile, your competition now has a well-trained employee, who is much more efficient.

Important Ethical Questions

Ethics involves an endless series of relationships—between buyer and seller, employer and employee, business and government, and business and society. When considering a questionable course of action, you have to ask yourself these important questions:

- Is it against the law? Does it violate company or professional policies?
- What if everyone did this? How would I feel if someone did this to me?
- Am I sacrificing long-term benefits for short-term gains?

Ethical decision making leads to more business activity and more efficient production of goods and services. Business works best when there is mutual trust between buyers and sellers.

Making Decisions on Ethical Issues

Making ethical decisions is not a quick task. It takes some real hard thinking. A derivation of the problem-solving process works well for ethical decision making. Here are some steps if you find yourself in an ethical dilemma:

1. Identify the ethical dilemma.
2. Discover alternative actions.
3. Decide who might be affected.
4. List the probable effects of the alternatives.
5. Select the best alternative.

Using this process will enable you to make a more informed ethical choice. Making an ethical decision involves more people than just you.



Fast Review

1. How do companies benefit by enforcing their own codes of ethics?
2. Why does it pay to treat customers ethically?
3. What are some important ethical questions to ask?

Social Responsibility

Social responsibility is the duty to do what is best for the good of society. Business ethics focuses on decisions considered good or bad, correct or incorrect. The social responsibility of business takes into consideration all that business does or does not do to solve problems of society.

The goal of business is to make a profit. Business, however, also involves the interaction of many different people. For a business to prosper it has to offer goods and services that other people want. If you manage a supermarket you rely on your employees to do a good job. When you go to a restaurant you expect to get good service. As a member of society, you're both a consumer and a producer.

Businesses have an ethical obligation to provide safe products, create jobs, protect the environment, and contribute to the overall standard of living in society. An ethical question in business occurs whenever there's a conflict of interest. A **conflict of interest** is when a business is tempted to put profits before social welfare.

The effect of unethical behavior is not always obvious. For example, pocketing a few CDs from the store you work at might not seem like a big deal. After all, you might think, no one will miss them and they're overpriced anyway. One of the reasons CDs cost as much as they do is because people steal them. Consumer and employee theft costs businesses billions of dollars each year. To make up for their losses, businesses have to charge more for their products. As a result, everyone has to pay more.

Real-World Application

part 2 of 4



OFF THE BEATEN PATH

As the designers of a fleece jacket made from a 2-liter soda bottle, Patagonia distributes clothing and equipment that's environmentally responsible.

How does the consumer pay for a company's inventions?

continued on p. 55

Responsibility to Customers

Customers are a business's first responsibility. Businesses should offer a good, safe product or service at a reasonable price. The **Food and Drug Administration** (FDA), a government agency, protects consumers from dangerous or falsely advertised products. Most companies obey the government's rules. Figure 4.2 asks you to analyze an over-the-counter medicine label.

For example, in 1982 Johnson & Johnson coped with a public health crisis. When people died from poisoned Tylenol capsules the company quickly responded. It alerted the public to the danger and recalled all bottles of its product at a cost of \$100 million. The company put Tylenol back on the market in new tamper-proof bottles. Today, Tylenol is one of the best-selling pain medicines.

Fair competition between businesses is healthy for the marketplace, but some companies don't always play reasonably. Some companies use

OVER-THE-COUNTER MEDICINE LABEL

➔ The FDA governs advertising and labeling of over-the-counter medicines.

Analyze why FDA officials might feel that regulation of advertising and packaging labels is necessary.

The diagram shows two boxes of Pain-Off medicine. The left box is labeled 'Pain-Off' and 'For fast relief of minor pain'. The right box is labeled 'Pain-Off' and 'ACETAMINOPHEN'. Lines connect various parts of the boxes to labels on the left and right.

- Purpose of medicine
- Cautions on use
- Directions for safe use
- Expiration date
- Control number
- Name of product
- Ingredients
- Exact measurements of package contents
- Name and address of manufacturer

unethical means to eliminate competition. One of the most common means is to conspire with other companies to control the market for a product. Together, the companies can control the supply of a product and determine the prices.

When companies overpower competition, consumers are affected. Consumers have less choice in what they can buy and how much they have to pay. When a company doesn't have to compete, its productivity decreases. This can backfire on a business. When the market changes or new markets open up, a company can find itself unprepared to compete.

For example, in the 1940s, a handful of entertainment studios controlled the film industry. They controlled the industry by owning most of the theaters. Smaller studios could make movies, but they couldn't get them shown anywhere. The government sued the big studios and forced them to sell their theaters. As a result, small studios were able to compete in the marketplace.

Responsibility to Employees

Businesses have provided work experience for those who haven't been successful in the workplace. Many of these people are public assistance recipients. The purpose of the program is to develop their skills and confidence levels necessary to continue success in the working world.

Many employees take one or more days off during the year to work on a project in the local community while still being paid. Key Bank in upstate New York has implemented this type of program. Volunteerism is another way businesses tackle societal problems.

Businesses have a social responsibility to create jobs. They are also expected to provide employees with safe working conditions, equal treatment, and fair pay. Less than one hundred years ago, however, workers had few rights.

Over the years the government has passed laws to protect workers from a range of issues, from child labor abuses to the rights of workers to organize. As the workplace has changed, the government has passed new laws. The **Equal Pay Act** (passed in 1964) requires that men and women be paid the same wages for doing equal work. More than 40 years later, however, the closing of the wage gap between men and women has been at a rate of less than half a penny a year. The Americans with Disabilities Act bans discrimination against persons with physical or mental disability. More than 50 million current or potential workers are likely to be covered by this law.

Real-World Application

part 3 of 4



OFF THE BEATEN PATH

Patagonia believes if you bear witness to an injustice, you must take action.

Become an environmental activist by writing letters to the editor of a local newspaper, shopping selectively, boycotting, and reducing personal consumption.

What are social issues you're interested in pursuing? How are businesses involved?

continued on p. 57



Writing for Business

Portfolio
Activity

Building on a Sacred Site

This activity gives you the chance to add to your portfolio. Communicate, interview, research, and write your way into a story. Choose one imaginary path, Avid Activist or Determined Developer. Follow your path's steps to complete your own story.

pick a path

Avid Activist

The Setting. A real-estate developer from Insti-House Inc., believes there is a lack of housing for retired people in town.

Rising Action. You discover the site contains historic relics from a Native American village dating back to around 1050 A.D. Additionally, an important nineteenth-century poet built a house on the site. Although the house burned down long ago, the poet's original garden still thrives. You decide to organize a committee to preserve the site's heritage.

Step 1. Present a list of various ways to preserve the site, which will be presented to the committee.

Step 2. After the meeting, you hone and tackle the first item on your list—write a letter to the editor of the local newspaper.

Determined Developer

The Setting. You're the public relations director for Insti-House, Inc. Your boss, the developer, reads the newspaper and sees all the letters to the editor protesting her real-estate development. Citizens of the community are angry. Insti-House wants to develop property on a historic site.

Rising Action. Delaying the development will cost Insti-House thousands of dollars. Its reputation is being damaged by bad publicity.

Step 1. Hoping to sway public opinion, your boss asks you to write a one-page press release outlining the Insti-House position on the development.

Step 2. Find out how you submit press releases to the local media.

Conclusion

Now it's time to reflect on your choice in the last section. Did you face a conflict of interest on any level? Take a few minutes to write in your journal about the business ethics and social responsibility of your situation.

Most companies have realized the value of treating workers fairly and have adopted codes of ethics in the workplace. For example, United Airlines has a strict policy against sexual harassment on the job. It's in a company's best interest to treat its workers fairly otherwise low morale, poor productivity, and a high turnover rate are its troubles.

Responsibility to Society

In the nineteenth and even into the twentieth century, many polluted and destructed the environment in order to profit. The lapse of judgment to keep the land, water, and air clean hurt many because the tradeoff for a higher standard of living only benefited a few. Around the middle of the twentieth century, many people were questioning whether this was a wise tradeoff. Polluting the environment became an ethical issue.

Businesses have responsibilities not only to customers and to employees but also to society as a whole. One of the biggest social issues facing businesses today is environmental responsibility. In 1970, the U. S. government created the **Environmental Protection Agency** (EPA), a federal agency that enforces rules that protect the environment and control pollution.

Some firms are very concerned about limiting the damage that they do to the environment. Companies obey the pollution standards set by the government for air, water, or land. The Body Shop places environmental concerns as an integral part of its mission. Biodegradable materials are contained in its products. An increasing number of businesses are buying recycled paper to use in their businesses.

The *Los Angeles Times*, a daily newspaper with over one million dedicated readers, uses recyclable paper and environmentally friendly soy-based ink. Car manufacturers like Honda and Toyota offer eco-cars, which reduce air pollution. Businesses that hold fast to environmental policies have better public relations.

An increasing number of businesses, especially corporations, consider social responsibility to be more important than ever. Many of them plan for their social responsibilities just like planning for production and sale of their products.

✓ Fast Review

1. Define social responsibility.
2. What is a conflict of interest?
3. What do companies adopt in the workplace to treat their workers fairly?

Real-World Application

part 4 of 4



OFF THE BEATEN PATH

Patagonia responsibly takes a stand against genetically modified organisms (GMO). Its position states that companies must be held accountable if any GMO released into the environment causes damage.

What government agency has a responsibility to society?

Chapter 4 Review

Summary

1. Ethics is the set of moral principles by which people conduct themselves personally, socially, or professionally. Businesses have a legal responsibility to do what is right for society's welfare.
2. Unethical business practices aren't only illegal but they are also bad for business. Good ethics affects a business's profits, customer base, and employee loyalty.
3. Social responsibility is the duty to do what is best for the good of society. Businesses have a responsibility to consumers, workers, and society as a whole. The FDA, Equal Pay Act, and the EPA are examples of government actions that were passed to improve societal concerns.
4. A conflict of interest is when a business puts profits before social welfare.

Using Business Key Words

Companies are expected to run their businesses responsibly. Find out if you understand what it means for companies to be both socially and ethically responsible. Fill each blank with the term that best completes the sentence.

- **ethics**
- **social responsibility**
- **business ethics**
- **Equal Pay Act**
- **conflict of interest**
- **Food and Drug Administration (FDA)**
- **sweatshops**
- **code of ethics**
- **Occupational Safety and Health Administration (OSHA)**
- **Environmental Protection Agency (EPA)**

1. The principles you live by, like honor and integrity, are called your _____.
2. Most businesses police themselves by distributing a _____.

3. _____ are factories that have unsafe working conditions, treat workers badly, and pay poorly.
4. _____ is a set of laws about how a business should behave.
5. The obligation a business has to do what is best for society is called _____.
6. An ethical question in business will occur when there is a _____ between social well-being and profits.
7. A division of the Department of Labor that sets and enforces work-related health and safety rules is called the _____.
8. The _____ (passed in 1964) requires that men and women be paid the same wages for doing equal work.
9. The _____ is a government agency that protects consumers from dangerous or falsely advertised products.
10. The federal agency that enforces rules that protect the environment and control pollution is called the _____.

Chapter 4 Review

Review What You Learned

11. Describe ethics.
12. Why was the Occupational Safety and Health Administration created?
13. How do most businesses police themselves?
14. Describe some of the ways unethical business practices can affect a business.
15. What are three questions you could ask yourself when considering a questionable course of action?
16. When does a conflict of interest occur?
17. What is the mission of the Food and Drug Administration?
18. What responsibilities do businesses have to their employees?
19. Name the biggest social issue facing businesses today.

Understanding Business Concepts

20. What is the difference between social responsibility and business ethics?
21. Why is it important for a business to treat its employees in an ethical manner?
22. Give an example of a conflict of interest that a business might face.
23. Why is competition important to the consumer?
24. What has the government done to protect workers?
25. How do socially responsible firms improve the quality of life for everyone in society?
26. Do you think the United States should trade with China or other countries with a poor human rights record? Why or why not?

Critical Thinking

27. Do you think most businesses act responsibly towards consumers? Can you think of a company that hasn't? Describe the company's behavior and the consequences of its actions.
28. Do you think a country has the right to impose its ethical standards on another country? Why or why not?
29. What do you think is a manager's role in setting ethical standards?
30. How do you think a business's social responsibility is measured?



Viewing and Representing

Examining the Image. What's going on in this picture? What interests or motivations are behind what's happening in this picture—both for the students and for the company? Compare what's represented in this photograph with the experience of your school and with company volunteer programs; what ways are they similar or different? Write a paragraph answering the questions.

Chapter 4 Review

Building Academic Skills

MATH

Raising Money

The president of Walker Computer Company wants her company to raise \$5,500 for Habitat for Humanity. She divided the employees into teams and asked each team to raise money towards the goal. There are nine teams.

- How much money should each team raise to meet the goal?
- If each group raises \$300, what percentage of the goal did each collect?

LANGUAGE ARTS

Presenting a Company

Research a business (past or present) that has demonstrated social responsibility. Describe the activities that took place and present your findings to the class.

COMPUTER TECHNOLOGY

Desktop Publishing

Promote the idea of social responsibility. Work in groups to create a brochure outlining the service projects and activities that are available in your community. Projects could include feeding the homeless, building projects, raising money for cancer research, and so on. Use word processing or desktop publishing software to create the brochure. If possible, make copies of the brochure and distribute them in school.

HISTORY

Selecting a Law

Select a law that the U.S. government passed to protect workers. Research the events leading up to the law being passed. Find out what impact the law has had on workers. Write a two-page paper with your findings.

Linking School to Home

Dealing With a Dilemma. At school you may have been involved in a situation that called your ethics into question. You're not alone—parents deal with dilemmas at work too. Ask your parents or other family members if they have ever been faced with an ethical issue at work. If so, find out what happened and how it was resolved. Discuss with them how they answered the important ethical questions you learned earlier in this chapter. Ask them to walk you through their steps of making an ethical decision.

Linking School to Work

Creating a Code. As a class, create a formal code of ethics for the classroom. Be sure to include the following:

- purpose of the code
- rules for classroom behavior
- rules for making ethical decisions
- consequences for breaking the code

Then, in teams of three or four, create two different ethical situations that could occur in the classroom. Role-play the situation and the resolution.

Chapter 4 Review

E-Homework

Applying Technology

Online Research. Using the Internet, research the code of ethics for a profession (doctor, lawyer, teacher) or a business. Read the code and choose two or three policies to share with the class.

Computer Usage. Imagine you have been hired by a small business to write a code of ethics to cover computer/technology usage. Write four or five rules that the employees of the company must follow.

Connecting Academics

Math. Rhonda, administrator for a non-profit group in Texas, has gathered data on company volunteer programs. She has tracked the number of volunteers working with schools in the area:

Year	1996	Company Volunteers	1500
	1997		1530
	1998		1570
	1999		1600
	2000		1660
	2001		1740

Present the information in a line graph. Use the graph to make a prediction about how many volunteers there will be in 2010.

Language Arts. Making ethical decisions is part of being a strong leader both in everyday life and in the business world. Think of two examples when you had to make an ethical decision. Walk back through the five steps to making an ethical decision that you learned earlier. Do this for each example you come up with. For both examples, write two paragraphs detailing the situation, the possible choices, the resulting decision, and the effects of the decision.

BusinessWeek Analyzing the Feature Story



You read the first part of “Commerce Reweaves the Social Fabric” at the beginning of this chapter. Below are a few questions for you to answer about corporate citizenship. You’ll find the answers to these ques-

tions when you’re reading the entire article.

First, here are the questions:

31. What is the main motivation for the good corporate citizenship of companies such as Prudential Insurance Co. and Merck & Co.?
32. What are some potential disadvantages for the companies that practice good corporate citizenship?

CREATIVE JOURNAL ACTIVITY

Create your own Futuretown, USA. Using poster board and magic markers, design Main Street and match corporate sponsors with the following public projects: a library, housing for seniors, a city park, and an outdoor concert arena. Explain how each company would benefit from being associated with a specific public work.



The Full Story

To learn more about corporate citizenship, visit the *Introduction to Business* Web site at www.introbus.glencoe.com, and click on *BusinessWeek* Feature Story, Chapter 4.