Business ethics and corporate social responsibility

Business Ethics

- Determine acceptable conduct

- Acceptable behavior determined by:

  - Organization

  - Stakeholders and interest groups

  - Competitors

  - Government regulators

  - Interest groups

  - Public

  - Individual's personal principles

Source: M Business 6th Edition

Aspects of Trust

- In business, trust is the glue that holds relationships together

- Trust in banks is lower than in other industries, except for media and government

Source: M Business 6th Edition

Figure 2-1 Global Trust in Different Institutions
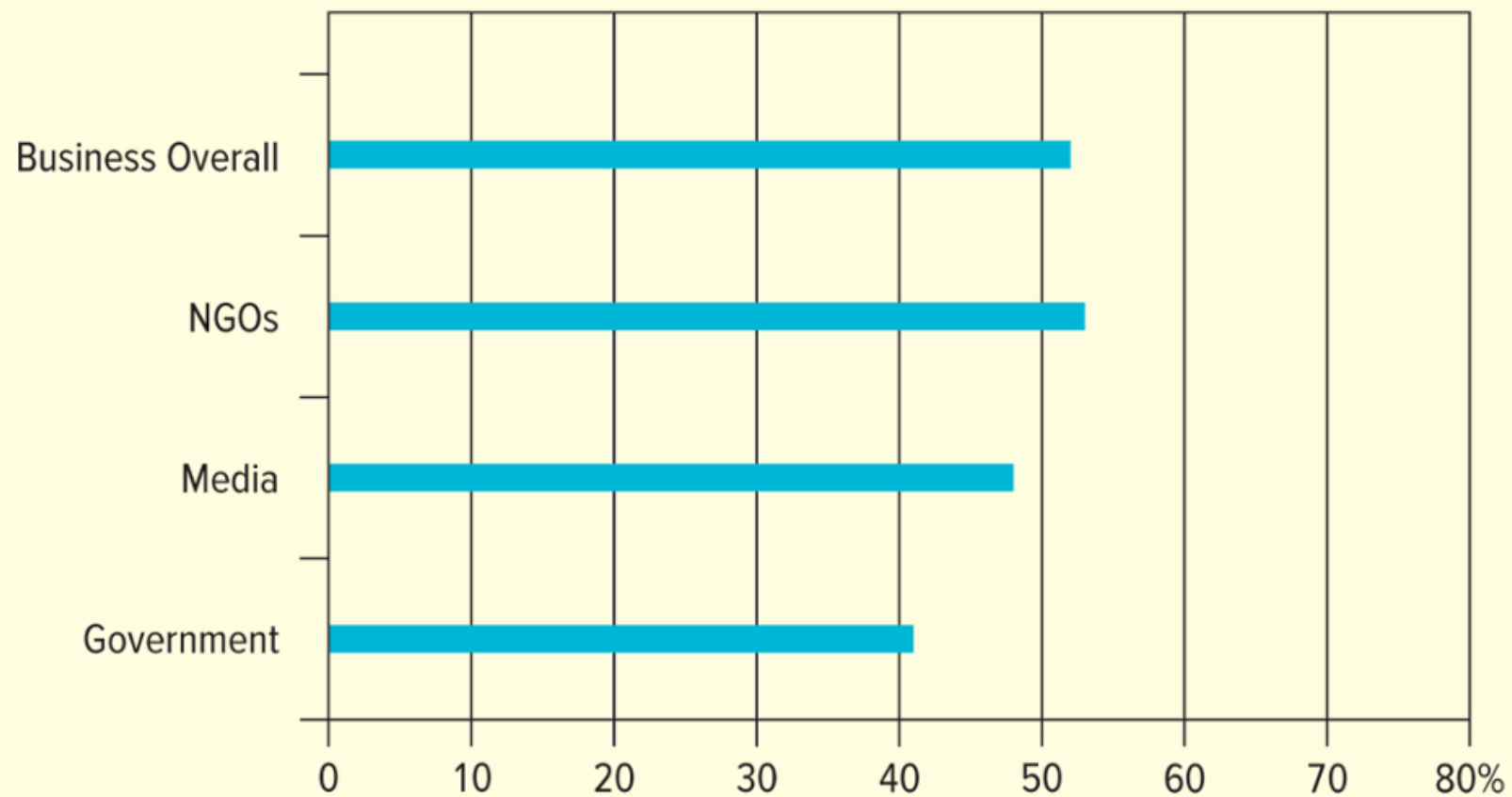
Source: Edelman Trust Barometer, "2017 Edelman Trust Barometer," http://www.edelman.com/global-results/;(accessed April 7, 2017).

Tone from the Top

- Managers must show strong commitment to ethics and compliance

- Requires top managers to acknowledge own role in supporting ethics and compliance

  - Clearly communicate expectations to all employees

  - Educate managers/supervisors

  - Train managers/employees on what to do if ethics crisis occurs

Source: M Business 6th Edition

Social Responsibility

- Maximize positive impact

- Minimize negative impact

Social Responsibility and Ethics Differ

- Ethics refers to decisions made by individual or work group that society evaluates as right or wrong

- Social responsibility refers to impact of entire organization's activities on society

Source: M Business 6th Edition

Acc Scandals

Session 1 SM 6 Accounting Fraud and Scandals

Year	Company	Country	Estimated Amount $ billion	Nature of fraud or scandal
2001	Enron	USA	74.0	Hid debt in SPVs
2008	Bernie Madoff	USA	64.8	Ponzi scheme
2008	Lehman Brothers	USA	50.0	Loans disguised as sales
2008	Anglo Irish Bank	Ireland	15.0	Impairment losses
2003	Parmalat	Italy	10.6	Falsification of earnings, assets and debts
2012	Autonomy	USA	8.8	HP acquisition Software sales accounting
2003	Freddi Mac	USA	5.0	Misstaed earnings
2005	AIG	USA	3.9	Recorded loans as revenues,
2011	Sino-Forest	Canada/China	3.0	Fraudulent inflation of assets and earnings
2002	Worldcom	USA	3.0	Capitalized expenses
2000	Xerox	USA	2.0	Equipment sales revenues on leased copiers
2004	Chiquita Brands	USA	1.7	Illegal payments to paramilitary groups
1998	Waste Management	USA	1.7	Increased useful life of assets
2009	Saytam	India	1.5	Falsified revenues, margins and cash.
2003	Healthsouth	USA	1.4	Staff ordered to make up transactions
2011	Olympus	Japan	1.0	Takeover fees used to hide losses
2003	Nortel	Canada	0.5	Release of reserves to boost earnings
2002	Royal Ahold	Netherlands	0.5	Accelerated recognition of vendor rebates
2002	Tyco	USA	0.5	Capitalized costs and officer loans
2014	Tesco	UK	0.3	Overstated supplier rebates

Fraud Triangle

Pressure/Motivation

**Theft
of
Assets
False Expense Claims
Fictitious Invoices
Falsification of
Accounting Records**

Opportunity

Rationalization

Laws and Regulations

- Sarbanes-Oxley Act

  - Criminalized securities fraud and stiffened penalties for corporate fraud

  - Enacted after accounting scandals in the early 2000s

- Dodd-Frank Act

  - Passed to reform financial industry and offer consumers protection against complex and/or deceptive financial products

  - Enacted after most recent recession

Source: M Business 6th Edition

1960s

- Social issues
- Consumer Bill of Rights
- Disadvantaged consumer
- Environmental issues
- Product safety

1970s

- Business ethics
- Social responsibility
- Diversity
- Bribery
- Discrimination
- Identifying ethical issues

Source: M Business 6th Edition

1980s

- Standards for ethical conduct

- Financial misconduct

- Self-regulation

- Codes of conduct

- Ethics training

1990s

- Corporate ethics programs

- Regulation to support business ethics

- Health issues

- Safe working conditions

- Detecting misconduct

Source: M Business 6th Edition

2000s

- Transparency in financial markets

- Cyber security

- Intellectual property

- Regulation of accounting and finance

- Executive compensation

- Identity theft

Source: M Business 6th Edition

Misconduct

- Starts as ethical concerns, evolves into legal disputes
- Ethical gray areas
  - No values, codes, or laws for particular situation

Ethical Conduct

- Builds trust in business relationships
- Can be difficult if have reputation for ethical violations

Source: M Business 6th Edition

Recognizing Ethical Issues in Business

- **Ethical issues**

  - Requires evaluation of right or wrong, ethical or unethical

  - Recognizing ethical issues is the most important step in understanding business ethics

  - Decisions require knowledge competence in business area of concern

Source: M Business 6th Edition

Recognizing Ethical Issues in Business continued

- **Bribes**

  - Payments, gifts, or special favors

  - Foreign Corrupt Practices Act

- Ethical issues are very complex

  - Experience with culture in which business operates is critical

  - One principal cause of unethical behavior is overly aggressive financial or business objectives

Source: M Business 6th Edition

Table 2-2 Organizational Misconduct in the United States

Misconduct Facts	Percentages
Observed misconduct	30
Abusive behavior	22
Lying to employees	22
Conflict of interest	19
Pressure to compromise standards	22
Report observed misconduct	76
Experience retaliation for reporting	53

Source: Ethics and Compliance Initiative, 2016 Global Business Ethics Survey™: Measuring Risk and Promoting Workplace Integrity, Arlington, VA: Ethics and Compliance Initiative, 2016, 43.

Source: M Business 6th Edition

Recognizing Ethical Issues in Business continued

- Misuse of company time

  - Theft of time is common in workplace

  - Many employees spend average of one hour each day using social networking sites or watching YouTube

  - Estimated to cost companies hundreds of billions of dollars annually

Source: M Business 6th Edition

Recognizing Ethical Issues in Business continued

- Abusive and intimidating behavior

  - Continuum from minor distraction to disruption

  - Most common ethical problem for employees

    - Difficult to assess and manage due to diversity in culture and lifestyle

    - Intent should be a consideration

  - Bullying associated with hostile workplace when person or group is targeted and is threatened, harassed, belittled, verbally abused, or overly criticized

Source: M Business 6th Edition

Table 2-3 Actions Associated with Bullies

1. Spreading rumors to damage others

2. Blocking others' communication in the workplace

3. Flaunting status or authority to take advantage of others

4. Discrediting others' ideas and opinions

5. Using e-mail to demean others

6. Failing to communicate or return communication

7. Insults, yelling, and shouting

8. Using terminology to discriminate by gender, race, or age

9. Using eye or body language to hurt others or their reputation

10. Taking credit for others' work or ideas

Recognizing Ethical Issues in Business continued

- Misuse of company resources

  - Identified as a leading issue in observed misconduct in organizations

  - Issues might include:

    - Spending excessive time on personal e-mails

    - Submitting personal expenses on company reports

    - Using company copier for personal use

  - Many companies have implemented official policies delineating acceptable use of company resources

Source: M Business 6th Edition

Recognizing Ethical Issues in Business continued

- Conflict of interest

  - Exists when person must choose whether to advance personal interests or those of others

  - To avoid, employees must be able to separate personal financial interests from business dealings

  - Insider trading or bribery

Source: M Business 6th Edition

Fairness and Honesty

- Employees and companies must:

    - Abide by laws and regulations

    - Cause no harm through dishonesty

    - Use company resources fairly and honestly

    - Use fair competition practices

    - Give full disclosure of potential harm by a product

Source: M Business 6th Edition

Fairness and Honesty continued

- Communications

  - Avoid false and misleading advertising

  - Be honest about product safety and quality

  - Follow ethical labeling practices

Source: M Business 6th Edition

Fairness and Honesty continued

- Business relationships

  - Keeping company secrets

  - Meeting obligations and responsibilities

  - Avoiding undue pressure that can cause others to act unethically

  - **Plagiarism** is another ethical issue

Source: M Business 6th Edition

Making Decisions about Ethical Issues

- Can be difficult to recognize specific ethical issues

- Perceived importance of issue affects choices

- Most receive no attention

Source: M Business 6th Edition

Table 2-5 Questions to Consider in Determining Whether an Action is Ethical

1. Are there potential legal restrictions or violations that could result from the action?

2. Does your company have specific code of ethics or policy on the action?

3. Is this activity customary in your industry? Are there any industry trade groups that provide guidelines or codes of conduct that address this issue?

4. Would this activity be accepted by your co-workers? Will your decision or action withstand open discussion with co-workers and managers and survive untarnished?

5. How does this activity fit with your own beliefs and values?

Source: M Business 6th Edition

Improving Ethical Behavior in Business

- Three factors that influence business ethics:

  - Individual standards and values

  - Influence of managers and co-workers

    - Exert control through authority and example

    - Critical in gaining consistent compliance

  - Opportunity to engage in misconduct

Source: M Business 6th Edition

Improving Ethical Behavior in Business continued

- **Whistleblowing**

  - Employee exposes employer's wrongdoing to outsiders

  - More companies are establishing programs to encourage employees to report illegal or unethical practices internally

  - Congress passed Dodd-Frank Act, which includes a "whistleblower bounty program"
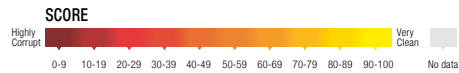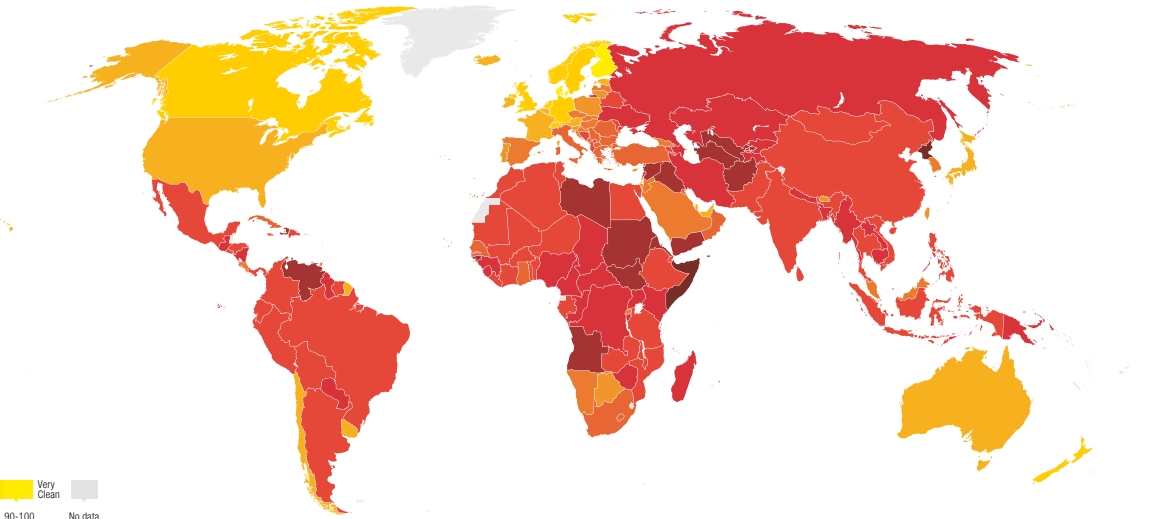
Source: M Business 6th Edition

Improving Ethical Behavior in Business continued

- Current trend is to move away from legally based ethical programs to cultural- or integrity-based programs that make ethics a core organizational value

- Effective business ethics programs are good for business performance

- Firms that develop higher levels of trust function more efficiently and effectively, and avoid damaged company reputations and product images

Source: M Business 6th Edition

ransparency International

CORRUPTION PERCEPTIONS INDEX 2015

NOT ONE
SINGLE COUNTRY,
ANYWHERE
IN THE WORLD,
IS CORRUPTION-FREE

Transparency International

CORRUPTION PERCEPTIONS INDEX 2015

The perceived levels of public sector corruption in 168 countries/territories around the world.

SCORE — Highly Corrupt → Very Clean — 0-9 | 10-19 | 20-29 | 30-39 | 40-49 | 50-59 | 60-69 | 70-79 | 80-89 | 90-100 | No data

RANK	COUNTRY/TERRITORY	SCORE
1	Denmark	91
2	Finland	90
3	Sweden	89
4	New Zealand	88
5	Netherlands	87
5	Norway	87
7	Switzerland	86
8	Singapore	85
9	Canada	83
10	Germany	81
10	Luxembourg	81
10	United Kingdom	81
13	Australia	79
13	Iceland	79
15	Belgium	77
16	Austria	76
16	United States	76
18	Hong Kong	75
18	Ireland	75
18	Japan	75
21	Uruguay	74
22	Qatar	71
23	Chile	70
23	Estonia	70
23	France	70
23	United Arab Emirates	70
27	Bhutan	65
28	Botswana	63
28	Portugal	63
30	Poland	62
30	Taiwan	62
32	Cyprus	61
32	Israel	61
32	Lithuania	61
35	Slovenia	60
36	Spain	58
37	Czech Republic	56
37	Korea (South)	56
37	Malta	56
40	Cape Verde	55
40	Costa Rica	55
40	Latvia	55
40	Seychelles	55
44	Rwanda	54
45	Jordan	53
45	Mauritius	53
45	Namibia	53
48	Georgia	52
48	Saudi Arabia	52
50	Bahrain	51
50	Croatia	51
50	Hungary	51
50	Slovakia	51
54	Malaysia	50
55	Kuwait	49
56	Cuba	47
56	Ghana	47
58	Greece	46
58	Romania	46
60	Oman	45
61	Italy	44
61	Lesotho	44
61	Montenegro	44
61	Senegal	44
61	South Africa	44
66	Sao Tome and Principe	42
66	The FYR of Macedonia	42
66	Turkey	42
69	Bulgaria	41
69	Jamaica	41
71	Serbia	40
72	El Salvador	39
72	Mongolia	39
72	Panama	39
72	Trinidad and Tobago	39
76	Bosnia and Herzegovina	38
76	Brazil	38
76	Burkina Faso	38
76	India	38
76	Thailand	38
76	Tunisia	38
76	Zambia	38
83	Benin	37
83	China	37
83	Colombia	37
83	Liberia	37
83	Sri Lanka	37
88	Albania	36
88	Algeria	36
88	Egypt	36
88	Indonesia	36
88	Morocco	36
88	Peru	36
88	Suriname	36
95	Armenia	35
95	Mali	35
95	Mexico	35
95	Philippines	35
99	Bolivia	34
99	Djibouti	34
99	Gabon	34
99	Niger	34
103	Dominican Republic	33
103	Ethiopia	33
103	Kosovo	33
103	Moldova	33
107	Argentina	32
107	Belarus	32
107	Côte d'Ivoire	32
107	Ecuador	32
107	Togo	32
112	Honduras	31
112	Malawi	31
112	Mauritania	31
112	Mozambique	31
112	Vietnam	31
117	Pakistan	30
117	Tanzania	30
119	Azerbaijan	29
119	Guyana	29
119	Russia	29
119	Sierra Leone	29
123	Gambia	28
123	Guatemala	28
123	Kazakhstan	28
123	Kyrgyzstan	28
123	Lebanon	28
123	Madagascar	28
123	Timor-Leste	28
130	Cameroon	27
130	Iran	27
130	Nepal	27
130	Nicaragua	27
130	Paraguay	27
130	Ukraine	27
136	Comoros	26
136	Nigeria	26
136	Tajikistan	26
139	Bangladesh	25
139	Guinea	25
139	Kenya	25
139	Laos	25
139	Papua New Guinea	25
139	Uganda	25
145	Central African Republic	24
146	Congo Republic	23
147	Chad	22
147	Democratic Republic of the Congo	22
147	Myanmar	22
150	Burundi	21
150	Cambodia	21
150	Zimbabwe	21
153	Uzbekistan	19
154	Eritrea	18
154	Syria	18
154	Turkmenistan	18
154	Yemen	18
158	Haiti	17
158	Guinea-Bissau	17
158	Venezuela	17
161	Iraq	16
161	Libya	16
163	Angola	15
163	South Sudan	15
165	Sudan	12
166	Afghanistan	11
167	Korea (North)	8
167	Somalia	8

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Social Responsibility

Social Responsibility

- A business's obligation to maximize its positive impact and minimize its negative impact on society

Ethics refers to individual's or work group's decisions

Social responsibility and ethics are not the same

Social responsibility is the impact of the entire organization's activities on society

Source: M Business 5th Edition

Corporate Citizenship

- Extent to which businesses meet responsibilities placed on them by stakeholders

- Commitment indicates strategic focus on fulfilling social responsibilities expected of organization by stakeholders

- Involves action and measurement of extent to which firm embraces corporate citizenship philosophy and following through by implementing appropriate initiatives

Source: M Business 6th Edition

Table 2-9 The Arguments For and Against Social Responsibility 1 of 2

For:

1. Social responsibility rests on stakeholder engagement and results in benefits to society and improved firm performance.

2. Businesses are responsible because they have the financial and technical resources to address sustainability, health, and education.

3. As members of society, businesses should support society through taxes and contributions to social causes.

4. Socially responsible decision making by businesses can prevent increased government regulation.

5. Social responsibility is necessary to ensure economic survival.

Source: M Business 6th Edition

Table 2-9 The Arguments For and Against Social Responsibility 2 of 2

Against:

1. It sidetracks managers from the primary goal of business—earning profit.

2. Participation in social programs gives businesses greater power, perhaps at the expense of concerned stakeholders.

3. Does business have the expertise needed to assess and make decisions about social and economic issues?

4. Social problems are the responsibility of the government agencies and officials, who can be held accountable by voters.

5. Creation of nonprofits and contributions to them are the best ways to implement social responsibility.

Source: M Business 6th Edition

Social Responsibility Issues

- Relations with owners and stockholders

  - Maintain proper accounting procedures

  - Provide investors with all relevant information

  - Protect owner's rights and investments

Source: M Business 6th Edition

Social Responsibility Issues continued

- Employee relations

  - Provide safe workplace and pay them adequately

  - Keep them informed of what is happening in company

  - Listen to their grievances and treat them fairly

  - Provide equal opportunities regardless of sex, age, race, religion, or nationality

Source: M Business 6th Edition

Social Responsibility Issues continued

- Consumer relations

  - **Consumerism**

    - Write letters

    - Lobby government agencies

    - Make public service announcements

    - Boycott irresponsible companies

Source: M Business 6th Edition

Social Responsibility Issues continued

- Consumer relations continued
  - John F. Kennedy's 1962 consumer bill of rights
    - Right to safety
    - Right to be informed
    - Right to choose
    - Right to be heard

Source: M Business 6th Edition

Social Responsibility Issues continued

- Sustainability issues

  - **Sustainability**

    - Involves the assessment and improvement of business strategies, economic sectors, work practices, technologies, and lifestyles so that they maintain the health of the natural environment

    - Business plays a significant role

Source: M Business 6th Edition

Figure 2-3 Consumer Likelihood to Personally Address Social Responsibility Issues
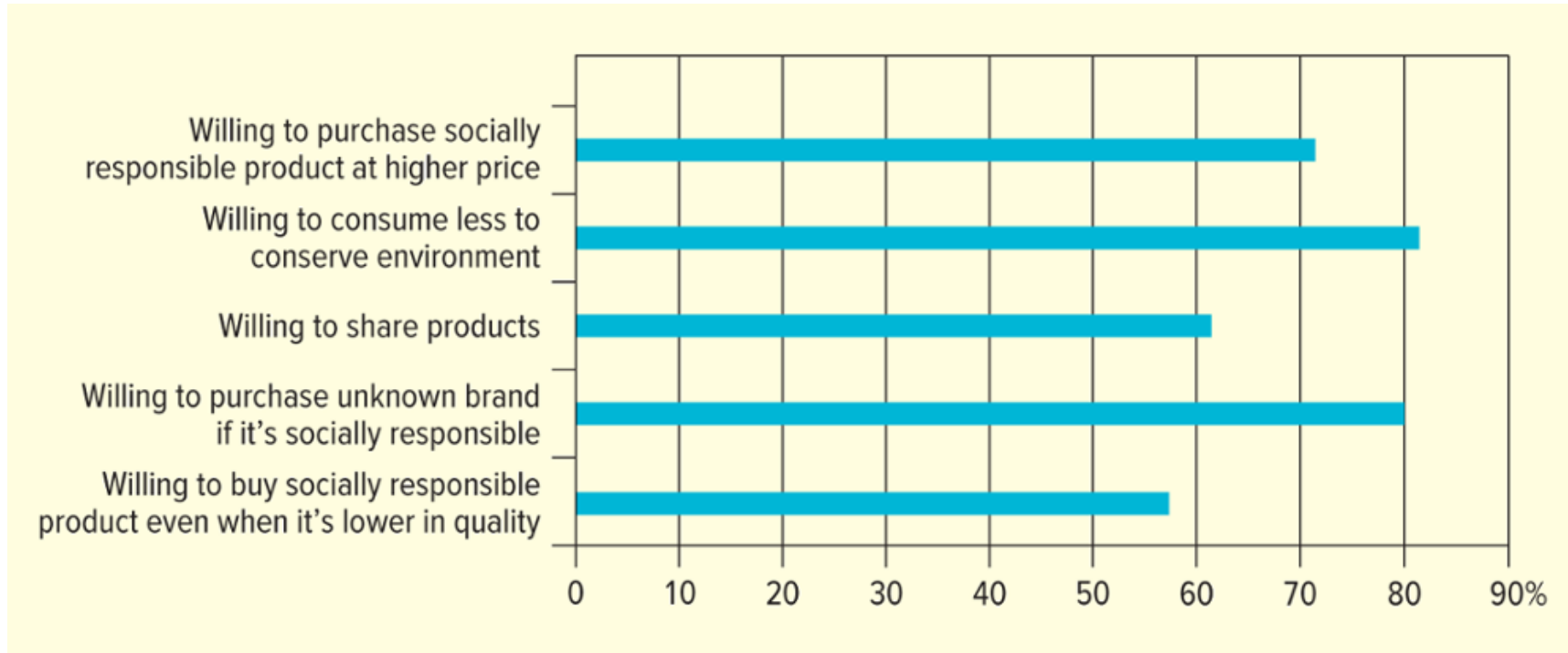
Source: Cone Communications and Ebiquity, "2015 Cone Communications/Ebiquity Global CSR Study,"
http://www.conecomm.com/research-blog/2015-cone-communications-ebiquity-global-csr-studyf (accessed April 8, 2017).

[Jump to long description in appendix](#)

Social Responsibility Issues continued

- Sustainability issues continued

  - Pollution

    - Water—toxic chemicals and raw sewage

    - Air—acid rain and climate change

    - Land—garbage, strip mining, and poor forest conservation

  - Alternative energy

    - Reducing carbon emissions forces alternative energy sources

    - Challenges regarding economic viability

Source: M Business 6th Edition

Social Responsibility Issues continued

- Sustainability issues continued

  - Response to environmental issues

    - Greenwashing—positive association with environmental issues

    - Using green power sources when available

    - Recycling aluminum, paper, glass, some plastics

Source: M Business 6th Edition

Social Responsibility Issues continued

- Community relations

    - Many businesses simply want to make their communities better places for everyone to live and work

    - Most common way is through donations to charitable organizations

Source: M Business 6th Edition

Social Responsibility Issues continued

- Sustainability issues continued

    - Response to environmental issues

        - Greenwashing—positive association with environmental issues

        - Using green power sources when available

        - Recycling aluminum, paper, glass, some plastics

Source: M Business 6th Edition

Social Responsibility Issues continued

- Sustainability issues continued

  - Response to environmental issues

    - Greenwashing—positive association with environmental issues

    - Using green power sources when available

    - Recycling aluminum, paper, glass, some plastics

Source: M Business 6th Edition

Social Responsibility Issues continued

- Sustainability issues continued
    - Response to environmental issues
        - Greenwashing—positive association with environmental issues
        - Using green power sources when available
        - Recycling aluminum, paper, glass, some plastics

Source: M Business 6th Edition

Issue of Unemployment

- While an economic issue, carries ethical implications

- Protesters say leads to growing gap between rich and poor

- Factory closures seen as unethical

- Some companies refuse to hire unemployed workers due to lack of experience rather than hiring and training them

Source: M Business 6th Edition

LVMH - Social Responsibility

SOCIAL RESPONSIBILITY

—

AT LVMH, WE BELIEVE IN EXEMPLARY BEHAVIOR TOWARDS OUR EMPLOYEES
AND COMMUNITIES, BASING OUR RESPONSIBLE EMPLOYMENT AND BUSINESS
APPROACH ON RESPECT FOR PEOPLE AND A COMMITMENT TO ACTIVE SOLIDARITY.
OUR FOUR KEY PRIORITIES ARE: WELL-BEING AND QUALITY OF LIFE AT WORK,
PREVENTING DISCRIMINATION, DEVELOPING ALL TYPES OF TALENT,
AND SUPPORTING LOCAL COMMUNITIES. OUR ACTIONS REFLECT A DESIRE
TO TAKE THE SPIRIT OF EXCELLENCE THAT DRIVES THE GROUP
AND TURN IT INTO A LEVER FOR EMPLOYMENT, SOCIAL INCLUSION
AND THE FULL, UNFETTERED EXPRESSION OF TALENT.

LIFE Program : LVMH Indicators For the Environment