

WEEK 1: OVERVIEW OF BUSINESS ETHICS

ASSESSMENT

Presentation – 25%

- Deliver within tutorials to class and tutor
 - Delivered over different weeks
- Group work – allocated within tutors
- Theme: CORPORATE SCANDAL
- Nominate a case which needs to be approved by tutor
- Assessed by rubric at the back of unit outline

Essay – 25%

- Individual work
- Topic which will be assigned by week 3
- Will say exactly what is expected to do

Final examination – 50%

- Consist of short answer questions and an essay question
- What is covered in lectures is what may appear in the final exam
- Towards the end of the semester – exam revision will be provided by tutors

INTRODUCTION TO BUSINESS ETHICS

What is business ethics?

- Business ethics refers to the principles and standards that ought to guide business practice in the pursuit of the common good
- The study of business ethics also means the analytical study of business, and its impact on society and the common good

Two definitions of business:

- Prescriptive – how they are supposed to behave
- Analytical – study of the impact on society and the common good

Ethical obligations: Beyond the Law

- Giving back to communities
- Initiating CSR programs

BUSINESS INVOLVES WEALTH

- Business and business ethics requires a fundamental understanding of value and money
- In 2015, just 62 individuals had the same wealth as 3.6 billion people (Oxfam 2016)
- In Australia, the richest 1% are as rich as the poorest 60% of Australians (Oxfam 2016)

ENRON CORPORATION

<http://www.investopedia.com/articles/stocks/09/enron-collapse.asp>

- Energy company within the US
- Grew quickly and diversified into a range of financial services
- Tweaked figures which in turn cause their downfall

NESTLE CORPORATION

<http://www.globalresearch.ca/the-privatisation-of-water-nestle-denies-that-water-is-a-fundamental-human-right/5332238>

- Asked by an interviewer – is water a human right?
- Chairman thought that water was a privilege and that it shouldn't be free

AMAZON

- Interns were being exploited
- Ruthless expectations were being asked
- Constant peer reviews

COCA-COLA AMATIL

<http://www.smh.com.au/business/orix-boss-john-carter-charged-over-cocacola-corruption-scandal-20150402-1mdo9b.html>

- Involved contract relationship with the company they were getting company cars from (Fleet executives)
- Bribes were being made in order to secure contracts

FIFA

<http://www.bbc.com/news/world-europe-32897066>

- Ongoing investigation into bribery and corruption

VOLTSWAGEN

<http://www.bbc.com/news/business-34324772>

- Deliberately tampering with devices which measure their carbon emissions
- Passing tests which should not have been passed
- CEO put into spotlight before resignation

TOURING PHARMACEUTICALS

<http://www.theverge.com/2016/1/24/10823528/ftc-investigation-martin-shkreli-turing-pharmaceuticals>

KOREAN AIR

http://www.huffingtonpost.com/2015/05/22/heather-cho-leaves-prison-nut-rage_n_7421074.html

- Nut rage incidence

COMMONWEALTH BANK

- Financial planners – who deliberately gave clients bad advice in order to boost their own commissions

Corporate misconduct and corruption is a GLOBAL PHENOMENON

- *Transparency International* - <https://www.transparency.org/>
 - Not-for-profit organisation
 - Measure the level of corruption between each countries
 - Provide useful definitions
- Not isolated incidences
- Happens all the time all around the world

10 PRINCIPLES

United Nations Global Compact – <https://www.unglobalcompact.org/>

Categorised into 4 dimensions:

1. Human rights
 - Businesses should support and respect the protection of internationally proclaimed human rights

HUMAN RIGHTS: A RIGHT WHICH IS BELIEVED TO BELONG TO EVERY PERSON
 - Make sure that they are not complicity in human rights abuses
2. Labour
 - Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

COLLECTIVE BARGAINING: NEGOTIATION OF WAGES AND OTHER CONDITIONS OF EMPLOYMENT BY AN ORGANISED BODY OF EMPLOYEES
 - The elimination of all forms of forced and compulsory labour
 - The effective abolition of child labour
 - The elimination of discrimination in respect of employment and occupation
3. Environment
 - Businesses should support a precautionary approach to environmental challenges
 - Undertake initiatives to promote greater environmental responsibility
 - Encourage the development and diffusion of environmental friendly technologies
4. Anti-corruption
 - Businesses should work against corruption in all its forms, including extortion and bribery

10 Principles of the UN Global Compact

	Human Rights	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses.
	Labour	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation.
	Environment	Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies.
	Anti-Corruption	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

BRIBERY

The offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust. Inducements can take the form of gifts, loans, fees, rewards or other advantages (taxes, services, donations, favours etc.)

CORRUPTION

The abuse of entrusted power for private gain. Corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs.

Grand: the abuse of high-level power that benefits the few at the expense of the many, and causes serious and widespread harm to individuals and society. it often goes unpunished.

Petty: everyday abuse of entrusted power by public officials in their interactions with ordinary citizens, who often are trying to access basic goods or services in places like hospitals, schools, police departments and other agencies.

Political: manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth.

THREE PERSPECTIVES OF BUSINESS ETHICS

1. Mainstream – dominant attitude found among people in regards to businesses
 - Tempt to teach business ethics, business leaders and media
 - Ethics is something that can be taught
 - Scandals are something that can be learnt from
2. Materialist – philosophical outlook developed with classical Marxism
 - Not at an individual level but a social level
 - Companies are forced to act in a competitive way due to the economic system
 - Profit system drives people to unethical behaviour
3. Religious – people who are influences
 - Spiritual leaders
 - i. Pope Francis
 - ii. Dalai Lama
 - Hold a mainstream point of view but urge leaders to lead a life of spirituality
 - Wants everyone to be more reflective on their life
 - How you can apply principles of CST to different corporate scandals?
 - i. Preferential option for the poor
 - ii. Subsidiarity
 - iii. Universal purpose of goods
 - iv. Global solidarity
 - v. Stewardship of creation

WEEK 2: THE HISTORY OF THE MODERN CORPORATION

RECAP

- Definition of business ethics:
 - **Prescriptive** – business ethics refers to the principles and standards that ought to guide business practice in the pursuit of the common good
 - **Analytical** – the study of business ethics also means that the analytical study of business, and its impact on society and the common good

WHY HISTORY?

MATERIALIST CONCEPTION

“The view developed by Marx, according to which ‘material’ or economic factors have a prime role in determining historical change” – Darvil, T (2008)

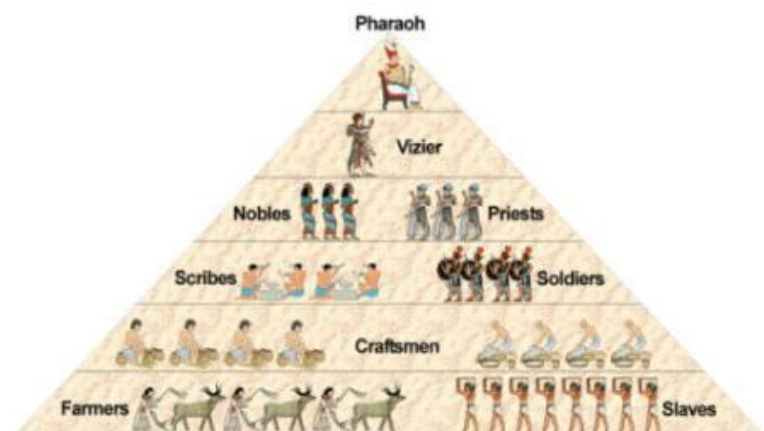
Economic factors create historical change, it is not ideas, ideology, morals and enlightenment

PRIMITIVE COMMUNISM

- Hunter and gatherers – shared traits with indigenous populations
- Human beings lived in small family like structures
- No civilisation
- Small nomadic communities
- Tied together through a family structure
- Clear division of labour
- No class structures
 - Class structure emerges when there is an introduction of surplus wealth (producing more than what it needs to consume)
- The more control they gained over their environment they were able to create a more stable, less nomad life

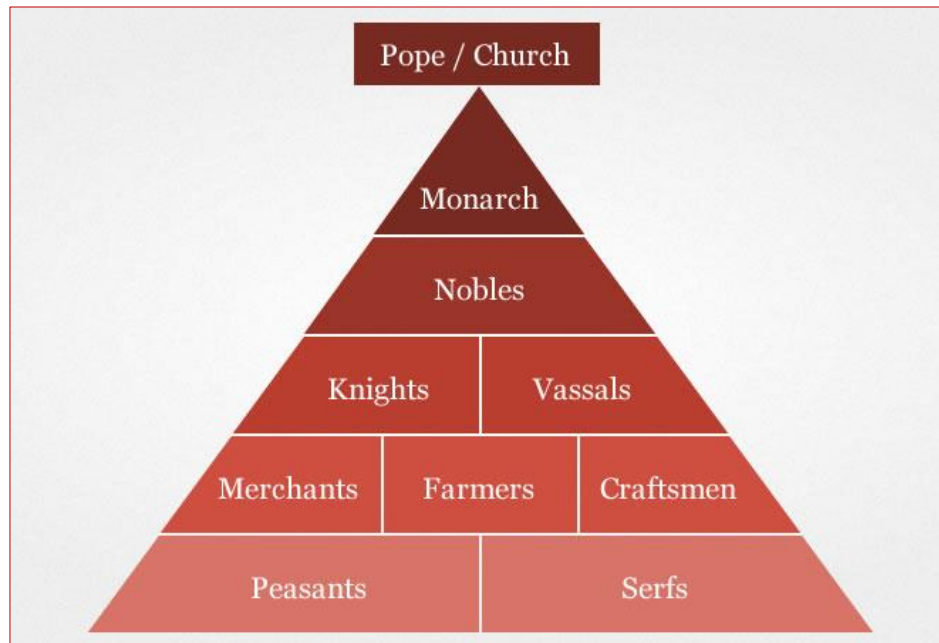
SLAVE SOCIETY

- Develop of tools which led to a revolution
- Sedentary lifestyle
- Early forms of civilisation
 - Modern day Iraq
- Surplus created a class system – Ancient Egypt
 - People occupying more of the privileged lifestyle
- Christianity appears as a response against slavery



FEUDALISM

- Middle Ages – 800 to 1700s
- Immediate aftermath of the collapse of the Roman Empire
 - Christianity had become an official religion –
- Creation of little kingdoms
 - Society needed one consolidated ruler (Monarch)
- A time in history in which Christianity played a fundamental role
- Serfs are tied to the land which means that when land is sold they are sold along with it



- Discovery of the new world (North America and South American continents) sped up the collapse of Feudalism into Capitalism
 - Slowly rejecting the authority of England
- When Feudalism collapses it paves a way for a new economic system



RISE OF THE MERCHANT CLASS

- Gaining influence on society
- Traders – enable to amass themselves surplus due to their ability to control trade and early business
 - Towards the end Feudalism we saw a rise in Trade companies
- English revolution – first signs

BOSTON TEA PARTY

- Refused to pay tax on incoming supplies
- Threw tea in the water
- Gaining power and influence within the new world – didn't want to answer to a King or Queen

CAPITALISM (profit system)

“The term capitalism generally involves what may be called – depending on one’s perspective – the “value-added use” or the “exploitation” of the factors of production, namely, land, labour, and money, in ways that are meant to generate surplus wealth known as profit. Capitalists invest their money in those enterprises that they believe will augment their wealth. Sometimes they win, and sometimes they lost” – Roy, R (2012)

FEATURES

- Market economy
 - Depends on competition between firms and nations
 - Creates antagonisms between countries
- Private property
 - Fundamental
 - Everything is privatised and becomes a commodity relation
- Bourgeois democracy
 - “Merchant class”
 - Ruling class
 - Owners of the means of production – controls business, factories, wealth
 - On the receiving end of the surplus
- Imperialism
 - **IMPERIALISM:** A POLICY OF EXTENDING A COUNTRY’S POWER AND INFLUENCE THROUGH COLONISATION, USE OF MILITARY FORCE OR OTHER MEANS
- Financial institutions
- Monopolistic tendencies
 - Contradicts free market economy
 - Aim is to beat competition – more and more concentrations of wealth

INDUSTRIAL CAPITALISM

- Pervasive mechanisation and industrialisation of its productive processes, changes that introduced new dynamic tendencies into the economic system while significant transforming the social and physical landscape
- Factories, new inventions and technology
- Large scale consumer markets
- Industrial revolution

FINANCE CAPITALISM

- Slowdown in production but not slowdown in wealth which is due to finance, transactions and wealth within society

CORPORATIONS

CORPORATIONS: AN ARTIFICIAL BEING, INVISIBLE, INTANGIBLE AND EXISTING ONLY IN CONTEMPLATION OF LAW. BEING THE MERE CREATURE OF LAW, IT POSSESSES ONLY THOSE PROPERTIES WHICH THE CHARGER OF ITS CREATION CONFERS UPON IT

ROMAN COLLEGIUM

- 000-600s
- Very early form of corporation that had stockholders and professional managers which were called magisters
- Innovation of a business entity distinct from its owners was created

MIDDLE AGES

- 700s – 1400s
- Feudalism
- Religious communities, municipalities and professional guilds utilised the corporate form to provide hierarchy, organisation and continuity
- Professional guilds amassed power and wealth and occasionally conflicted with sovereigns
- Rise the merchant class

THE JOINT STOCK COMPANY

- 1700s – 1900s
- This short-term corporation was allowed to exist by a sovereign for specific purposes
- Many joint stock companies were designed to exploit markets in a certain global region

THE AMSTERDAM STOCK EXCHANGE

- 1611
- The innovation of stock exchange allowed investors to easily invest in corporate stock
- Ability to later divest of those shares with little knowledge of the ethical practices of the corporation

U.S. BILL OF RIGHTS

- 1791
- At the insistence of the citizenry of the new United States, Congress legislated 10 amendments to the U.S. Constitution
- Granted extensive legal rights and protections to individual humans

STATE INCORPORATION LAWS

- 1795
- As the U.S. federal government refused to consider national corporation legislation, individual states began enacting widely varying incorporation statutes
- Many corporations chose to incorporate in states with lax corporation statutes

THE DARTMOUTH CASE

- 1819
- As a result of this case, corporations were held to be legal entities that could transact and enter legal contracts

RAILROADS AND OTHER GIANT CORPORATIONS

- Mid-nineteenth
- The railroads developed into huge corporations with much cash and resources and little government oversight
- Their enormity provided an admirable model for corporations in other industries

THE SANTA CLARA CASE

- 1886
- While the decision in this case had nothing to do with assigning personhood status to corporations, the court reporter recorded a statement by the Chief Justice expressing that the justices believed that the corporates were persons
- These events were soon considered a court precedent

THE STOCKHOLDER CORPORATION

- 1889
- For decades, corporations had been prohibited by state incorporation laws from owning stock in other corporations
- Under pressure from the railroads and other large corporations, the states of New Jersey and Delaware revised their incorporation laws to allow corporate ownership of other corporation's stock

A CORPORATION MERGER WAVE

- 1895-1905
- As a result of the previous development and corporate freedom to buy stock of other corporations, many corporations merged, either voluntarily or involuntarily, with other corporations
- Many giant corporations emerged from this wave

THE CRASH AND THE RESULTING SECURITIES ACTS

- 1929-1934
- Without required audits or standard accounting practices, poorly informed investors fuelled stock market speculation
- The resulting stock market crash led to the Securities Acts which demanded annual audits of public corporations and more extensive regulation

THE MODERN MULTINATIONAL CORPORATION

- 1950
- With the end of World War II, U.S. corporations invaded the global economic environment, exporting their culture and ethics

ENVIRONMENTAL, EMPLOYEE HEALTH, AND PRODUCT SAFETY REGULATIONS

- 1970s
- Legislation and federal agencies were created that resulted in greater regulation and oversight of corporations

CORPORATE INFLUENCE OF ELECTED OFFICIALS AND THE JUDICIARY

- 1970-present
- Corporations funded lobbying organizations and industry groups that attempted to convince legislatures and the judiciary of the wisdom of corporation perspectives
- Legal devices were created whereby corporations could generously fund the campaigns of politicians

THE WIDENING GAP BETWEEN EXECUTIVE PAY AND THE COMPENSATION OF OTHER EMPLOYEES

- 1980-present
- Compensation packages of corporate executives became very, very large, while wages for corporate labourers became stagnant
- Many domestic corporate labourers lost their jobs to inexpensive labour markets abroad

INTERNATIONAL TRADE AGREEMENTS

- 1987-present
- International legal agreements were negotiated that promoted global commerce among countries
- Some of these agreements threatened national sovereignty, as they often required countries to revise existing laws and regulations

THE SARBANNES-OXLEY ACT

- 2002
- Widespread corporate fraud and the collapse of one of the large auditing firms led to the passage of this act, which enhanced the oversight of auditors and their public corporation clients