

BUGEN2630 PRINCIPLES OF RESPONSIBLE BUSINESS

TOPIC 1 CHAPTER 1 CORPORATE RESPONSIBILITY, ETHICS AND SUSTAINABILITY

Welcome to BUGEN2630

To make these notes more user-friendly content has been loosely arranged using the symbols below:

- Definitions are indicated by this symbol and are written in this colour text
- ⇒ Arrows to point to items that are relevantly grouped and this symbol summarises them together
- Listed items are arranged using this symbol
- Dot points are used at the end of topic 'Quick Summary'

WHAT IS BUSINESS ETHICS?

Business ethics, it is often claimed, is an oxymoron (Duska, 2000). By 'oxymoron,' we mean the uniting of two apparently contradictory concepts, such as in 'a cheerful pessimist' or 'a deafening silence'. To say that business ethics is an oxymoron suggests that there are not, or cannot be, ethics in business: that business is in some way unethical (i.e. that business is inherently bad), or that it is, at best, amoral (i.e. outside of our normal moral considerations).

To some extent, it is not surprising some people have this attitude. Why?

- A long list of scandals has highlighted the unethical way in which some firms have gone about their business
- The existence of malpractice
- The expectation that people will act in a way to satisfy a personal vested interest
- Actions serving both moral and the law may still in a business situation be 'unethical'

However, the existence of malpractice does not mean that there are not some values or principles driving such decisions, since even what we might think as 'bad' ethics are still ethics of sorts.

We regard the subject of **business ethics** as

- ⇒ the study of business situations, activities, and decisions where issues of right and wrong are addressed

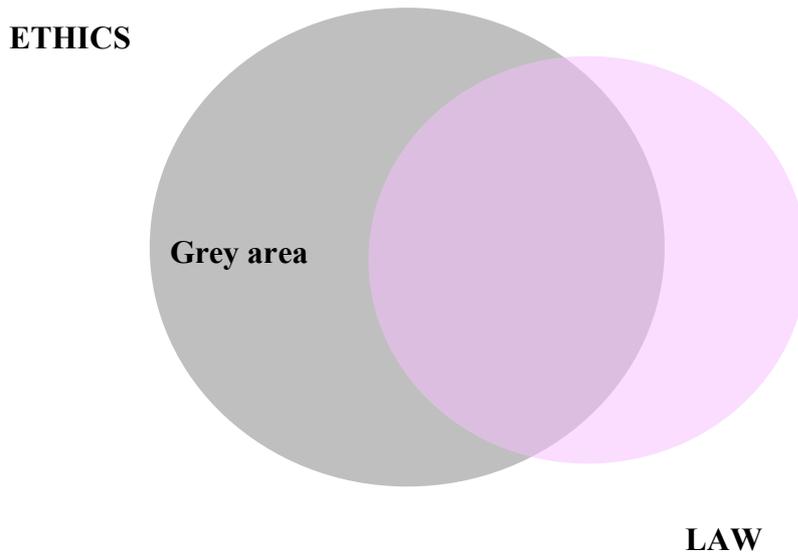
Here, 'right' and 'wrong' means morally right and wrong, as opposed to say, commercially, strategically, or financially right or wrong. By 'business' ethics, more than simply commercial business are included. Also included are government organisations, pressure groups, not-for-profit businesses, charities, and other organisations.

BUSINESS ETHICS AND THE LAW

SURELY THE LAW IS ALSO ABOUT ISSUES OF RIGHT AND WRONG?

This is true, and there is considerable overlap between ethics and the law. Further, the law is essentially an institutionalisation or codification of ethics into specific social rules, regulations and proscriptions. Nevertheless, the two are **not** equivalent. The law might be said to be a definition of the minimum acceptable standards of behaviour. The law however does not explicitly cover every possible ethical issue in business – or for that matter outside of business. For example, just as there is no law prohibiting a person from committing infidelity or being unfaithful to their significant other, so there is no law in several countries preventing businesses from testing their products on animals, selling landmines to oppressive regimes, or preventing their employees from joining a union - issues that a vast number of people feel strongly about.

The relationship between ethics and the law



In one sense, business ethics can be said to begin where the law ends. It is often said that business ethics is about the ‘grey areas’ of business, or where, as Treviño and Nelson (2014) put it, ‘values are in conflict’. Studying business ethics should assist in making *better* decisions, but this is not the same as making unequivocally *right* decisions. Business ethics is fundamentally about developing good *judgement*

DEFINING MORALITY, ETHICS, AND ETHICAL THEORY

In common usage, the terms ‘ethics’ and ‘morality’ are often used interchangeably. In order to clarify certain arguments, many academic writers have proposed clear differences between the two terms (e.g. Crane 2000; Parker 1998b). Unfortunately, different writers have sometimes offered different distinctions, therefore only serving to confuse rather than clarify understanding. Here is how they are commonly distinguished:

Morality

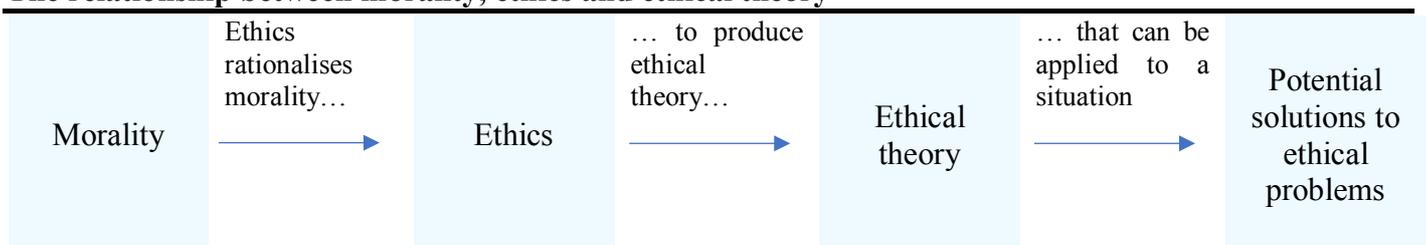
- is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community

Ethics

- is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine morally acceptable courses of action. Ethical theories are the codifications of these rules and principles

MORALITY PRECEDES ETHICS, WHICH IN TURN PRECEDES ETHICAL THEORY

The relationship between morality, ethics and ethical theory



WHY IS BUSINESS ETHICS IMPORTANT?

⇒ A multiple stakeholder approach that includes shareholders as a particularly important constituency will be taken. This assumes some intrinsic rights for stakeholders rather than focusing only on their role in affecting shareholder value

SUSTAINABILITY: A KEY GOAL FOR BUSINESS ETHICS?

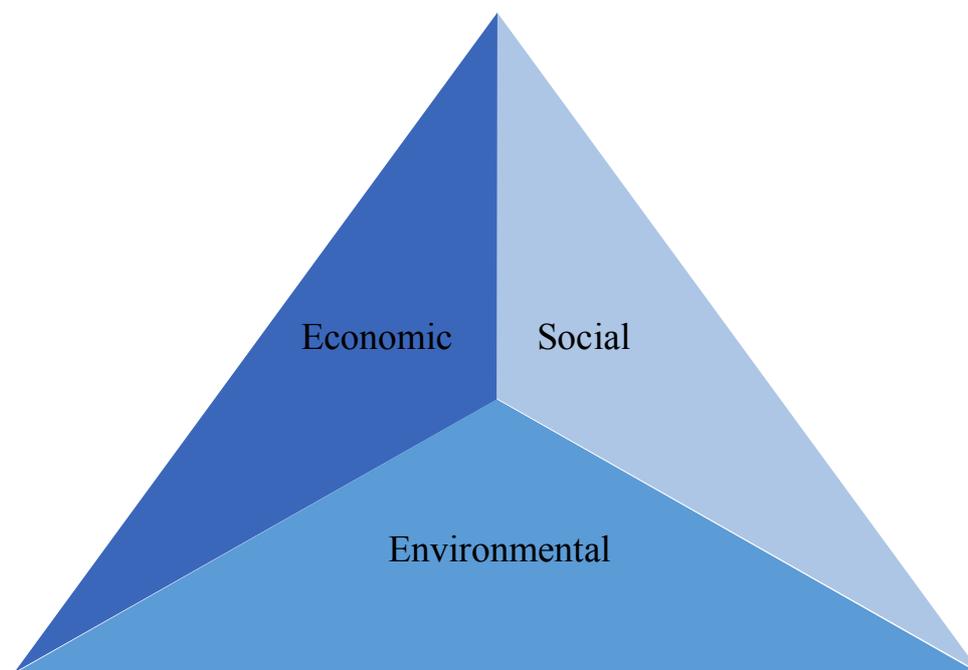
At the same time that these new challenges of globalisation have emerged, considerable interest has also been directed towards the development of new ways of addressing the diverse impacts of business in society. Many of these impacts are far-reaching and profound. To mention only a few, one only needs to think impacts such as:

- ⇒ The environmental pollution, in particular the effects on climate change, caused by the production, transportation, and use of products such as cars, refrigerators, or newspapers
- ⇒ The ever-increasing problems of waste disposal and management as a result of excessive product packaging and the dominance of our 'throwaway culture'
- ⇒ The devastating consequences for individuals and communities as a result of plant closures, 'downsizing', or 'outsourcing' as experienced throughout Europe and North America
- ⇒ The erosion of local cultures and environments due to the influx of mass tourism in places as diverse as Thai fishing villages, Swiss alpine communities, or ancient Roman monuments

Faced with such problems among many more, it has been widely suggested that the goals and consequences of business require radical rethinking

One concept in particular appears to have been widely promoted (though not unilaterally accepted) as the essential new conceptual frame for assessing not only business activities specifically, but industrial and social development more generally. That concept is *sustainability*

The three components of sustainability



Sustainability

- The long-term maintenance of systems according to environmental, economic and social considerations

THE FRAMING OF SUSTAINABILITY AS A GOAL FOR BUSINESS IS ENCAPSULATED MOST COMPLETELY IN THE NOTION OF A 'TRIPLE BOTTOM LINE'

To summarise:

- Long, complex debate but generally support from literature for some degree of responsibility accredited to corporations. Argument based on:
- Every organisation has a corporate internal decision structure which directs decisions in line with predetermined goals (French 1979)
- All organisations manifest a set of beliefs and values that lay out what is generally regarded as right or wrong in the corporation – organizational culture (Moore 1999)

CORPORATE SOCIAL RESPONSIBILITY

The systematic reasoning about a conceptual framework for corporate social responsibility started in the US more than 50 years ago, and during this time many different concepts and principles have been aired and debated in relation to CSR. Such debates have focused on these two questions:

1. Why might it be argued that corporations have social as well as financial responsibilities?
2. What is the nature of these social responsibilities?

Why do corporations have social responsibility?

Business reasons ('enlightened self-interest') i.e. the corporation embraces social responsibilities insofar as doing so promotes its own self-interest

- Extra and/or more satisfied customers
- Employees may be more attracted/committed
- Forestall legislation
- Long-term investment which benefits corporation

Moral reasons:

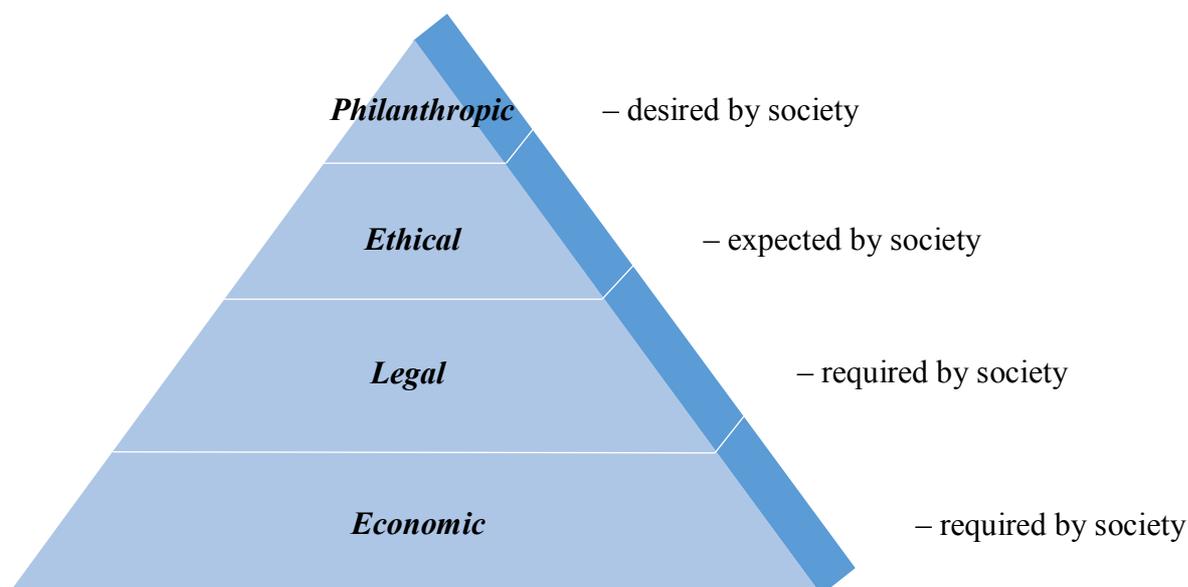
- Corporations cause social problems
- Corporations should use their power responsibly
- All corporate activities have *some* social impacts
- Corporations rely on the contribution of a wide set of stakeholders in society, not just shareholders

What is the nature of corporate social responsibilities?

Corporate social responsibility

- The attempt by companies to meet the economic, legal, ethical, and philanthropic demands of a given society at a particular point in time. (p. 50)

Possibly the most known and established model of CSR that addresses the second question is the 'Four-part model of corporate social responsibility' as initially given by Archie Carroll in 1979. He regards CSR as a multilayered concept, which can be differentiated into four interrelated parts – *economic, legal, ethical* and *philanthropic* responsibilities



CSR in an international context

CSR strong in US & Europe. Influence elsewhere is more recent. This is partly explained by *explicit* vs. *implicit* CSR. Regional differences exist with respect to all CSR levels:

Any factor that is unrelated to merit may be used to discriminate against employees

- marital status
- physical appearance
- sexual orientation
- gender reassignment

Institutional discrimination: discrimination deeply embedded in business

MANY ORGANISATIONS ARE BECOMING INCREASINGLY AWARE OF THE NEED TO *MANAGE DIVERSITY*

affirmative action

noun. NORTH AMERICAN

action favouring those who tend to suffer from discrimination; positive discrimination.

Reverse discrimination

In some cases, people suffer **reverse discrimination** because AA (affirmative action) policies prefer certain minorities

Justification for reverse discrimination

Retributive justice: past injustices have to be 'paid for'

Distributive justice: rewards such as job and pay should be allocated fairly among all groups (Beauchamp 1997)

Stronger forms of reverse discrimination tend to be illegal in many European countries

Sexual and racial harassment

As well as discrimination occurring in the areas of promotion, pay, and job opportunities, diversity considerations must also take into account physical, verbal, and emotional harassment

Other problems:

- Regulation reluctant
- Blurred line between harassment on one hand and 'joking' on the other
- Influenced by contextual factors such as character, personality, and national culture
- Companies increasingly introduced codes of practice and diversity programmes (Crain and Heischmidt 1995)

Equal opportunities and affirmative action

How should organisations respond to dilemmas involving unfair discrimination? In one sense, they could simply look towards legislation to approach the problem, particularly as many industrialised countries have a reasonably well-established legal framework of anti-discriminatory laws and statutes. However even the existence of clearly specified laws has not prevented discrimination from occurring, and most legal approaches do not specify exactly how discrimination should be avoided, leaving many decisions open to the discretion of management. As a result, many companies have sought to resolve these problems of discrimination through the introduction of so-called *equal opportunity* or *affirmative action* programmes. These establish policies and procedures that aim to deter discrimination, and may even attempt to redress inequity in the workforce

The most basic and conservative approach is usually referred to as an *equal opportunity programme*

- these have been widely introduced in business, and it is now common to see job adverts and company websites proclaiming that an organisation is an 'equal opportunity employer'
- Of course, many countries legally require that companies are equal opportunity employers, but the label is usually intended to signify that the organisation has gone beyond the normal expectations
- these programmes mainly involve the introduction of procedures that ensure that employees and prospective employees are approached equally and fairly

Discrimination

The prejudicial treatment or consideration of a person, racial group, minority, etc. based on category rather than individual characteristics, excluding or restricting members of one category on the grounds of race, sex, or age



Some equal opportunity programmes go further than just introducing non-discriminatory procedures. Often referred to as *affirmative action (AA)* programmes, these approaches deliberately attempt to target those who may be currently under-represented in the workforce, for instance by trying to increase the proportion of women, disabled, or racial minorities in senior management positions. Four main areas of affirmative action are below:

Recruitment policies
Fair job criteria

Training programmes for discriminated minorities
Promotion to senior positions

The notion of diversity is driven by the ethical values of fairness and justice and focused on embracing difference as a potential strength (Barak, 2013; Kirton and Greene, 2010)

Enlightened self-interest

- Richer pool of experiences and talent for diverse and open firms
- Can make firms more attractive to customers

Managing diversity

- the ability to attract, accommodate and nurture a diverse workforce is seen as increasingly important in a global, multicultural business environment. Rather than discriminating on the basis of personal characteristics, those skilled in diversity management see them as a source of business success

Employee privacy

Employee privacy is a worker's ability to control information about them and how it is used and shared. The fundamental right to privacy consists of an individual's entitlement to control information about themselves, and to control situations where such information could be derived

There are four different types of privacy that we may want to protect:

Physical privacy

Social privacy

Information privacy

Psychological privacy

- Physical privacy

Surveillance cameras

- Social privacy

In 2014 the CEO of Centerplate was forced to resign following a much-publicised incident where he was caught on elevator surveillance video abusing a dog

- Informational privacy

Breached for example when employers hire private security firms to investigate employees without due cause, or when employees' social media use outside the workplace is monitored by their employers

- Psychological privacy

Controlling emotional and cognitive inputs and outputs, and not being compelled to share private thoughts and feelings. For instance, psychological privacy is threatened when retailers introduce programmes aimed at ensuring employees smile and appear happy in front of customers

Cathay Pacific Airways flight attendants threatened 'work-to-rule' industrial action in 2012 that would include 'not smiling at passengers'

ASK – IS THE INFORMATION RELEVANT TO THE EMPLOYER?

Health and drug testing

Highly contested issue

Three main issues

- Potential to do harm
- Causes of employee's performance
- Level of performance

Despite these criticisms, such tests have become increasingly common

Electronic privacy and data protection

- Increasingly relevant as technology advances and electronic 'life' becomes more important
- Computer as a work tool enables new forms of surveillance

The challenges of sustainable consumption

| Ethic | Imposes limits to | Promotes |
|---------------------|-------------------|--|
| Protestant ethic | Consumption | Investment in productive capacity |
| Consumerism ethic | Saving | Instant gratification and consumption |
| Environmental ethic | Consumption | Alternative meanings of growth and investment in the environment |

Source: derived from Buchholz (1998)

Steps towards sustainable consumption

Producing environmentally responsible products

- e.g. Eco-labels are important

Product recapture

- See figure below

Service replacements for products

- Selling (e.g.) mobility rather than cars, or leasing photocopiers

Product sharing

- Examples: car-sharing, washing-machine-pooling

Reducing demand

- Example of China's ban on free plastic bags
 - Implementing the polluter pays principle to create financial incentive for lower consumption



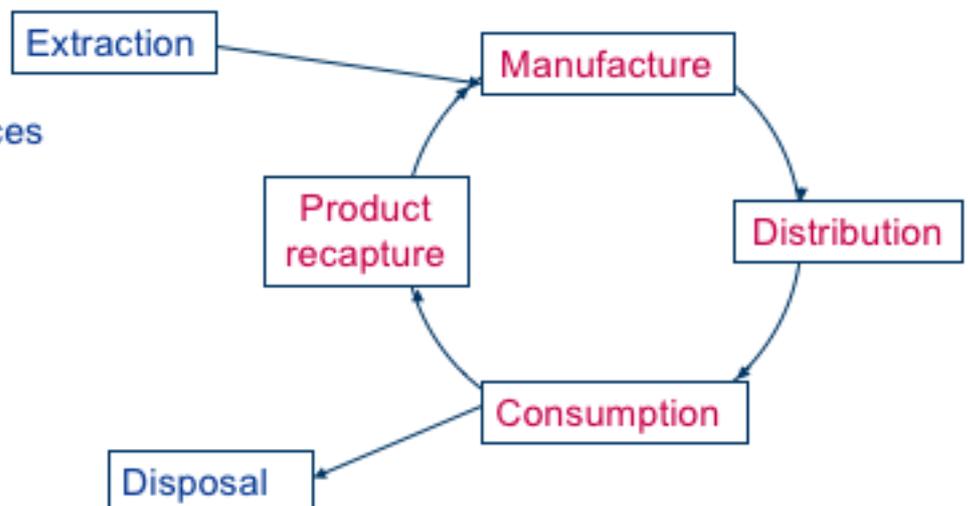
Sustainable consumption

- Consumer behaviour that enhances quality of life and minimises or eliminates social and environment detriments through a product's life cycle

(a) Linear flow of resources



(b) Circular flow of resources



Quick Summary

- The specific stake held by consumers and outlined some of the main rights of consumers:
 Rights to safe products

Business-business regulation

Ethical sourcing as business-business regulation

- Pressure exerted by powerful corporate customers to comply with ethical sourcing guidelines and criteria constitutes strong and often very effective regulation of supply chain members (Locke and Romis, 2007)

Strategies for business-business regulation:

Disengagement

- Setting of clear standards for suppliers and a means for assessing compliance with those standards
- Failure to meet standards in short- medium term will result in disengagement by the company

Engagement

- Rely on longer-term ‘aims’ together with incremental ‘targets’ in order to foster a step-by-step approach to Improving standards.
- Firm likely to work with their suppliers to achieve improvements

Strategies of business-to-business regulations

- Compliance
- Collaboration
- Development



Fair trade

Fair trade is a system aimed at offering ‘the most disadvantaged producers in developing countries the opportunity to move out of poverty through creating market access under beneficial rather than exploitative terms. The objective is to empower producers to develop their own business and wider communities through international trade’ (Nicholls & Opal 2005: 6)

Aims of fair trade movement

- Foster the protection and empowerment of growers
- Encourage community development by guaranteeing minimum prices and conditions

In 2008, Fair Trade sales grew 22% (est. €2.9Bn)

- But success could put pressure on ethical standards
- Challenges also from recruiting employees with mainstream business skills (Davies & Crane, 2010)

Comparison: Fairtrade & New York Prices for Cocoa, 1994-2015

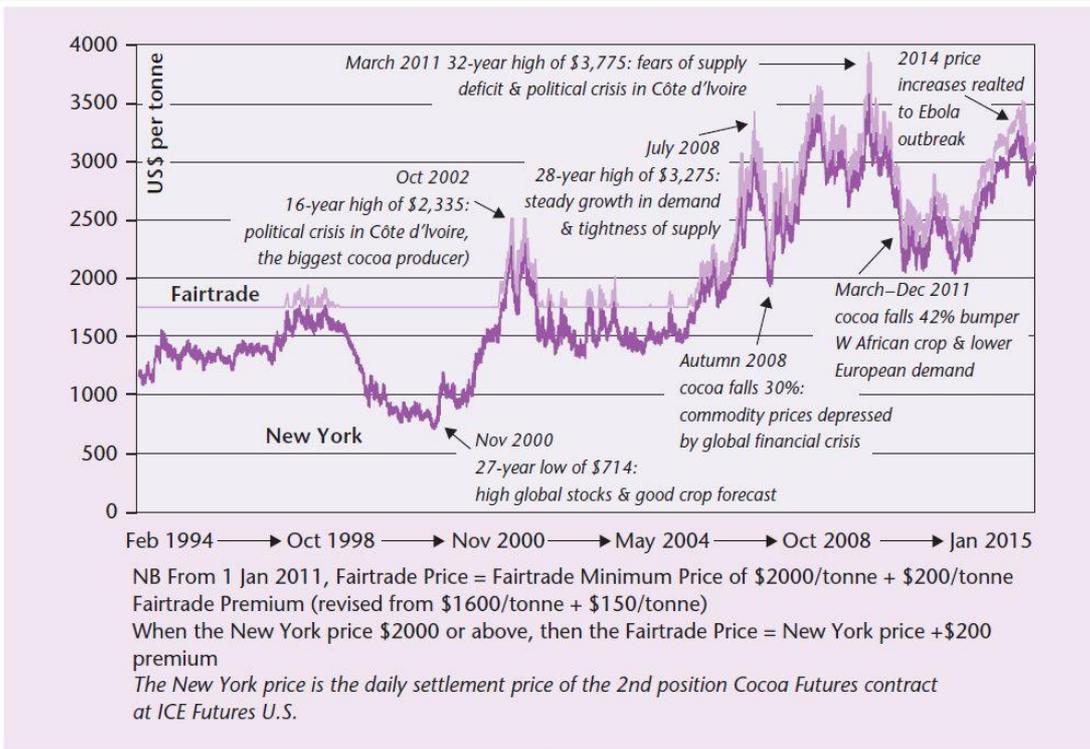


Figure 9.6 The cocoa market 1994–2015: comparison of Fairtrade and New York prices

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