

# 1. What is Business Ethics

**Business Ethics** is the study of business situations, activities and decisions where issues of right and wrong are addressed.

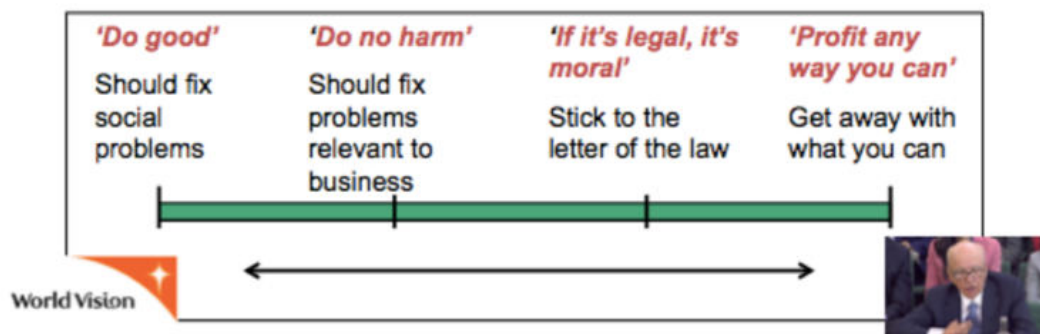
- Concerned with the **grey areas** in business
- Issues not covered by the law
- Ethical dilemma - values are in conflict

**Businesses include:** pressure groups, government organizations, not-for-profit organizations, charities, commercial businesses etc.

Businesses that are leading practice of sustainable business that provides both firm and social/environmental value:

- Tesla car
- Apple believes in Climate Change – fighting shareholders to protect the environment
- Hanergy- Solar energy
- Thank you water and Streat
- Westpac is the largest socially responsible business in Australia

## Purpose of business



## **Why must business ethics be taken seriously?**

- The power and influence of business in society is greater than ever before, they have influence on the decisions of the government
- Business has the potential to provide a major contribution to our societies in terms of producing the products and services we want, providing employment, paying taxes and acting as an engine for economic development.
- Business malpractices can harm people, environment and community

## **What the law says managers and directors must do**

### **Corporations act**

- Directors have a duty to act in the **best interests of the company**
- Prohibited from improperly using their position to gain an advantage for themselves or someone else or to cause detriment to the corporation

**Interpretation:** Must act in the **best interests of the shareholders**, a priority over other interests (shareholder primacy principle)

Economic Interests / Social Interests / Environmental Interests

## The CSR Industry

- **Trans-national institutional guidelines** - UN Global Compact, ISO 26000, OECD Guidelines for Multinational Enterprises, Global Reporting Initiative (GRI), Transparency International, Equator Principles
- **Stock exchange ratings** – Dow Jones Sustainability Index, FTSE4Good ethical index
- **Ethical investment funds** – KLD, Innovest, Insight Investment
- **Consultant organisations** - SustainAbility and AccountAbility, Good Corporation, Business in the Community, Business for Social Responsibility, Positive Outcomes, ACCSR, FutureEye
- **Specialist media** - Ethical Corporation, Business Ethics

**Business Ethics:** Why should firms operate ethically?

**Stakeholder issues:** What ethical issues should firms respond to?

## CSR and Political Ideology

- Represents a win:win between social and business values
- Supports left-wing/liberal values because it focuses business upon social outcomes
- Supports right-wing/conservative values because it encourages self-regulation – it supports small government
- **Without sustainability there is an:**
  1. **Ethics gap** – where firms that create harm risk public and govt. action aimed at restricting firm behavior
  2. **Social benefits gap** – if firms don't fix social problems, others (NGOs, govt) will be expected to and will need to be resourced to do it
    - So, if you don't want govt to get bigger then you need to be SR

	Large corps	Small biz	Civil society orgs	Public sector orgs
Main priorities in addressing ethical issues	Financial integrity, employee/customer issues	Employee issues	Delivery of mission to clients, integrity of tactics, legitimacy and accountability	Rule of law, corruption, conflicts of interest, procedural issues, accountability
Approach to managing ethics	Formal, public relations and/or systems based	Informal, trust-based	Informal, values-based	Formal bureaucratic
Responsible and/or accountable to...	Shareholders and other stakeholders	Owners	Donors and clients	General public, high level govt orgs
Main constraints	Shareholder orientation, size and complexity	Lack of resources and attention	Lack of resources and formal training	Inertia, lack of transparency

## Globalisation

A process which diminished the necessity of a common and shared territorial basis for social, economic and political activities, processes and relations

Result of technological advancements and political improvement eg. substantial liberalisation efforts with the EU, eroding national borders

**Impact of globalization:**

- Multinational corporations (MNC) exploiting workers in developing countries
- Destroying the environment
- Abusing economic power

**Cultural issues:**

- Chinese people might regard it to be more unethical to sack employees in times of economic downturns than would be typical in Europe
- Europeans might think child labor is worse than Chinese people and their moderate approach to the issue

**Legal issues:**

- The more economic transactions lose their connection to a certain regional territory, the more they escape the control of the respective national govts.
- Legal framework differs in different countries eg. 3<sup>rd</sup> world country

**Accountability issues:**

- MNCs are economically as powerful as many govts
- Eg. Wal-Mart revenue and Greece’s GDP were about the same in 2008

**Sustainability:**

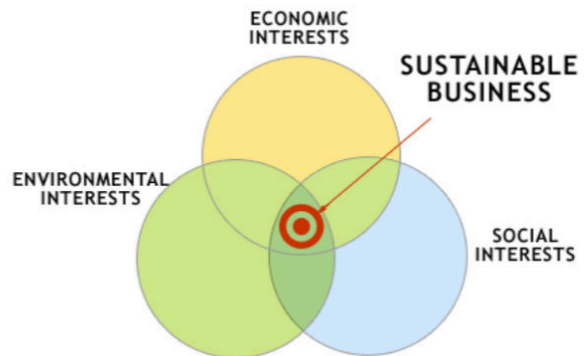
Sustainable development which is defined as ‘development that meets the needs of the present without compromising the future generation meeting their needs.

Economic, environment and social considerations are the 3 considerations for a sustainable business

- Environmental pollution
- Waste disposal
- Downsizing
- Erosion of local cultures due to the influx of mass tourism in diverse places

**Triple bottom line: Accounting framework with three parts**

Social, environmental (or ecological) and financial. Many organizations have adopted the TBL framework to evaluate their performance in a broader perspective to create greater business value.



**Why should a firm be sustainable?**

- ‘Separation thesis’
- Market optimality
- Business management optimality

**Sustainable business:** The right thing to do and good for business  
Win:win:win situation

## 2. CSR

- A. Revisiting the shareholder view
- B. Defining CSR
- C. Broader issues of CSR

### Stakeholder perspective

Ed Freeman: take into account all, and the issues that impact on them from the perspective of the organization eg. consumer, employee (truth in ads, fair value)

- Stakeholder expectations and evaluations
- Accurately describes the organization structures eg. HR, procurement department, marketing

### Shareholder perspective & CSR rebuttals

- “The social responsibility of business is to increase its profits” - Milton Friedman
- Conducting business in accordance with their employer’s wishes, make as much money as possible while conforming to the basic rules of the society
- Do what’s in best interest of the shareholders

### Arguments FOR and AGAINST

- **Property rights:** the manager is the agent for the owners of the business (Fiduciary duty - trustee - beneficiary) However:
  - **Misrepresentation** of our understanding of property rights. Not only the shareholders who have a relationship with the organization also customers.
  - Managers use CSR for their own ‘pet projects’
- **Utilitarianism:** choose the option for the greatest good for the most people. Desire to do their very best, satisfy customer need.
  - Seen as **unjust** because not always what the outcome will be, more likely to affect the **minority** negatively
- **Government’s responsibility/Manager’s social role:** social issues and problems are the proper province of the state. Eg. tax and climate change.
  - It is **our responsibility** to support govt’s social initiatives, pay full taxes. Globalized world exists at a transnational level and govt. has no control
- **Puts manager’s job at risk:** CSR is a cost – customer and employees will go elsewhere
  - **Modern change** – These arguments do not hold true today

**Why do businesses have social responsibilities?**

<b>Business Reasons</b>	<b>Ethical Reasons</b>	<b>Political Reasons</b>
Because it <b>maximises profits</b>  Based on reality of stakeholder theory <ul style="list-style-type: none"> <li>• There are opportunities/rewards for being sustainable</li> <li>• There are risks/penalties for being socially/environmentally irresponsible</li> </ul>	Because it is the <b>right thing</b> to do  Based on ethical theories of right conduct <ul style="list-style-type: none"> <li>• They should use their power and resources responsibly</li> <li>• Corporations cause social problems, all corporate activities have social impacts of one sort or another</li> <li>• Because they rely on the contribution of all stakeholders, so they should be responsible for all stakeholders</li> <li>• They are powerful and <b>with great power comes great responsibility</b></li> </ul>	Because it will protect the systems that firms and people rely on to thrive  Based on sustainability and systemic understanding <ul style="list-style-type: none"> <li>• Firms rely on a healthy economy, society and natural environment</li> </ul>

**One reason could be enlightened self-interest**

- Do it because it will help them eg. employees might be attracted to work for, and be more committed to, corporations perceived as being socially responsible
- More customers might also result
- Voluntarily committing to social actions and programs may forestall legislation and ensure greater corporate independence from the govt.
- Making a positive contribution to society might be a long term investment in a safer, better educated and more equitable community which means a more stable and improved competitive context to do business

**Corporate Social Responsibility**

**The Principle of Public Responsibility:** responsible for solving problems they have caused and solving problems and social issues related to their business operations and interests.

*Corporate accountability.*

**Creating shared value**

- Recognising and capitalizing on these connections between societal and economic progress has the power to unleash the next wave of global growth and to redefine capitalism
- Business engages with society in 3 key ways: community investment, responsible business and shared value.

**The win-win perspective**

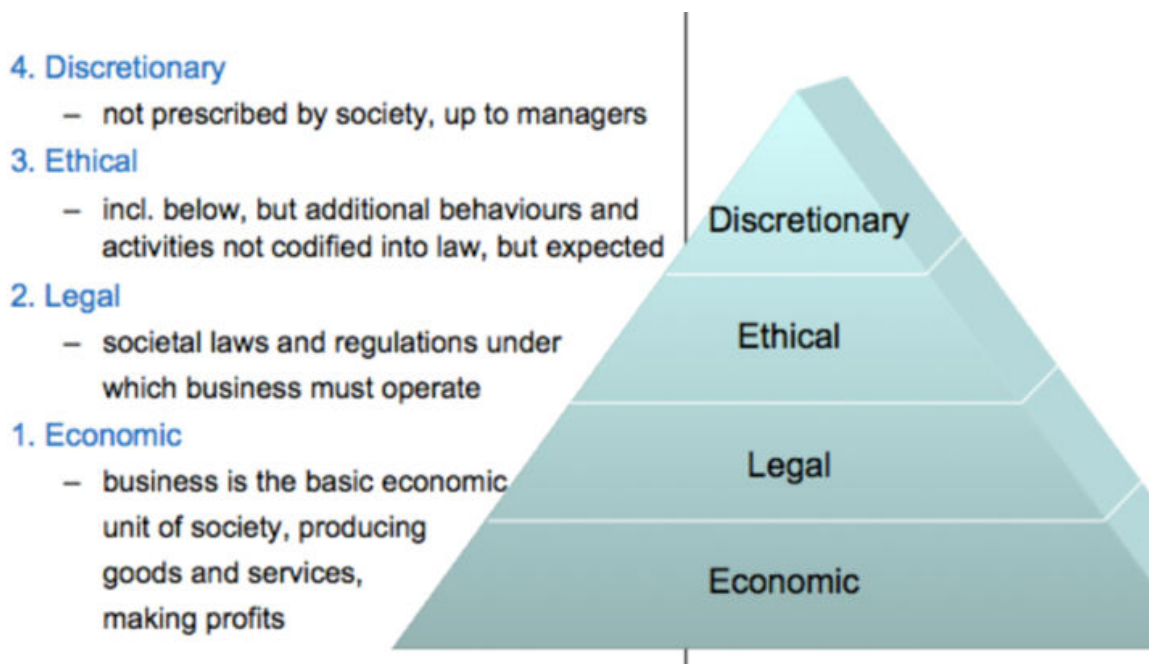
- You can act ethically/responsibly and make money
  - **Long term risk management:** managers can best navigate the complexities of the business environment by adopting a CSR strategy
- But surely there will be some instances where providing something to one group will cost shareholders

- **Value creation:** is this just a failure of our imagination to align stakeholder demands for synergistic value creation?

### Corporate citizenship

- We need to see businesses on the same level as the state
- Rightfulness of domination is granted via consent of citizens
- Post-privatisation and globalisation has seen businesses enter industries previously occupied by govt organisations, because of this there needs to be new expectations, criticisms and responsibilities.
- Eg. IKEA is the largest private donor to the UN refugee agency that provides housing units to people fleeing from Syria

### **Carroll 'Four part model of CSR'- different responsibilities**



### CSR and strategy

- CS responsiveness refers to the capacity of a corporate to respond to social pressures
  - 4 modes of social responsiveness
1. **Reaction:** denying any responsibility for social issues by arguing the government is responsible or they are not to blame
  2. **Defence:** admitting responsibility and doing the very least that seems to be required. Superficial PR rather than positive action
  3. **Accommodation:** accepts responsibility and does what is demanded of it by relevant groups
  4. **Pro-action:** actively seeks to go beyond industry norms and anticipates future expectations by doing more than is expected

### Outcomes of CSR: CS performance

**Social policies:** explicit and pronounced corporate social policies stating the company's values, beliefs and goals with regard to its social environment eg. including social objectives as part of their mission statements

**Social programmes:** implemented to achieve social policies eg. environmental management systems such as ISO 14000