

MKTG30012: BUSINESS ETHICS
EXAM PREPARATION | Semester 1 2020

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Lecture 1: Introduction to Business Ethics

BUSINESS ETHICS

WHAT IS IT? 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.

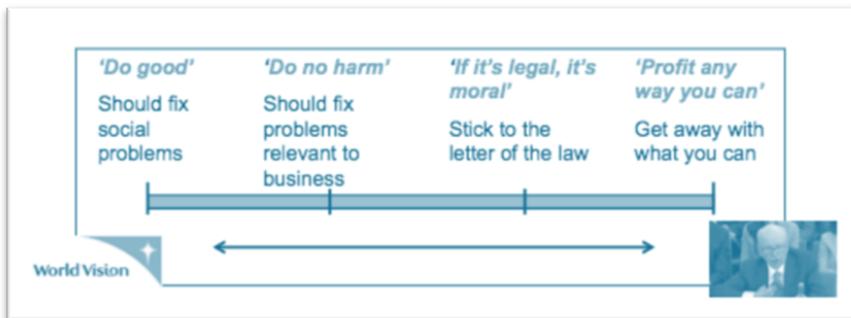
Businesses include:

Pressure groups, government organisations, NFP organizations, charities, commercial businesses etc.

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

- TESLA car
- Apple believes in climate change – fighting shareholders to protect the environment.
- WESTPAC is the largest socially responsible business in Australia.

Purpose of Business:



Legal Context

- *Corporations Act (s181):*
 - 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*)

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.
- Businesses have 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.

Creating Shared Value

- The central premise behind creating shared value (CSV) is that the competitiveness of a company and the health of the communities around it are *mutually dependent*.
- 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*.
- Businesses engages with society in 3 keyways: community investment, responsible business and shared value.

Leading businesses are providing both firm and social/environmental value.

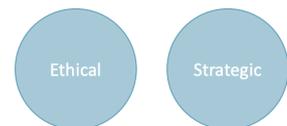
THE CSR Industry

- *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?

- *Separation Theses:*

- Market optimality: The 'Invisible Hand'
- Business management optimality: 'Single objective function'



- *Ethical/responsible/sustainable business:*

- The right thing to do and good for business – Win:Win
- Changed mindset and innovation/moral imagination.



Stakeholder Issues: What ethical issues should firms respond to?

CSR & 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 behaviour.
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 government to get bigger than you need to be SR.

SUSTAINABILITY:

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

- 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 population, waste disposal, downsizing, erosion of local cultures due to the influx of mass tourism in diverse places.

Ethics, Responsibility, Sustainability



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.

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 e.g. substantial liberalisation efforts with the EU, eroding national borders.

Impact of globalisation:

- Multinational corporations (MNC) exploiting workers in developing countries.
 - Destroying the environment.
 - Abusing economic power.
1. **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.
 2. **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 e.g. 3rd world country.
 3. **Accountability issues:**
 - MNCs are economically as powerful as many governments.
 - E.g. Walmart revenue differs in different countries e.g. 3rd world country.

Lecture 2: Corporate Social Responsibility

STAKEHOLDER PERSPECTIVE

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

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

SHAREHOLDER PERSPECTIVES & CSR Rebuttals

- *“The social responsibility of business is to increase its profits.”* – Milton Friedman
 - [Managers] responsibility is to conduct the business in accordance with their [employers’] desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embedded in law and those embodied in ethical custom.
- 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.
- However, Friedman is dated, we’ve moved on. Ethical customer has changed, there is evidence that CSR can be profitable.
- In the present climate of opinion [CSR] is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest. Today’s CSR is ‘Neo-Friedmanite.’

Friedman’s Arguments	CSR Rebuttal
Property Rights <ul style="list-style-type: none"> ● The manager is the agent of the owners of the business (fiduciary duty) ● Managers use CSR for their own pet projects 	Misrepresentation <ul style="list-style-type: none"> ● Others also contribute property and effort ● Not only the shareholders who have a relationship with the organisation, also customers ● Managers use CSR for their own ‘pet projects’
Utilitarianism <ul style="list-style-type: none"> ● Corporations contribute best to society when they do what they do best 	Unjust <ul style="list-style-type: none"> ● Who receives the benefits and who pays the costs? ● More likely to affect the minority negatively
Government’s responsibility or manager’s social role <ul style="list-style-type: none"> ● Social issues and problems are the proper province of the state ● Taxing and spending while not elected, no mandate, no expertise 	Undermined & irrelevant <ul style="list-style-type: none"> ● Responsibility to support government’s social initiatives, pay full taxes ● In globalised world, governments are often incapable
Puts manager’s job at risk <ul style="list-style-type: none"> ● CSR is a cost – customers and employees will go elsewhere 	Misunderstands instrumental benefits <ul style="list-style-type: none"> ● Doing ‘good’ leads to doing ‘well’; CSR certainly doesn’t cost.

Why do businesses have social responsibilities?

1. Ethical Reasons	2. Business Reasons	3. Political Reasons
<p>Because it's the <i>right thing</i> to do.</p> <p>Based on ethical theories of right conduct.</p> <ul style="list-style-type: none"> ● Firms should do no harm. ● They should use their power and resources responsibly ● Because they rely on the contribution of all stakeholders, so they should be responsible for all stakeholders ● They are powerful and with great power comes great responsibility 	<p>Because it will <i>maximise profits</i>.</p> <p>Based on reality of stakeholder theory.</p> <ul style="list-style-type: none"> ● There are opportunities/rewards for being sustainable/SR. ● There are risks/penalties for not. 	<p>Because it will <i>protect the systems</i> that the firm and people rely on to thrive.</p> <p>Based on sustainability and systematic understanding</p> <ul style="list-style-type: none"> ● Firms rely on a healthy economy, society and natural environment.

ENLIGHTENED SELF-INTEREST

- **Self-responsibility**
 - Business has been freeriding by 'externalising' social and enviro costs with the understanding that this provides net benefits for society.
 - But, awareness of the externalities has increased; acceptance of the net benefits argument has decreased.
 - Alternative responses:
 - Government regulation and enforcement
 - Other stakeholders' actions
 - Business self-regulation
- **Enlightened self-interest**
 - It is in firm's best interests to avoid harms; identify opportunities and protect the systems they need.
 - They may do it because it will help them, e.g. employees might be attracted to work for, and be more committed to, corporations perceived as being socially responsible.
 - Voluntarily committing to social actions and programs may forestall legislation and ensure greater corporate independence from government.
 - 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.

UNILEVER: "if we focus our company on improving the lives of the world's citizens and come up with genuine sustainable solutions, we are more in synch with consumers and society and ultimately this will result in good shareholder returns."

CORPORATE SOCIAL RESPONSIBILITY

WHAT IS IT?

- CSR is “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.” (European Commission, 2011)
- “CSR (and its synonyms) empirically consists of [clearly articulated and communicated] policies and practices of corporations that reflect business responsibility for some wider societal good. Yet the precise manifestation and direction of the responsibility lie at the discretion of the corporation.” (Matten & Moon, 2008: 405).
- CSR is about the effects of everything a firm does relative to its context and practices.

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.

- Multitude of issues.
- Each organisation’s context is different.
- We need to define and frame CSR in such a way that it applies generally but is also relevant specifically.

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 have seen businesses enter industries previously occupied by government organisations, because of this there needs to be new expectations, criticisms and responsibilities.

CAROLL'S (1979) FOUR-PART MODEL

1. **Economic:** Business is the basic economic unit of society, producing goods and services, making profits.
2. **Legal:** Societal laws and regulations under which business must operate.
3. **Ethical:** Including below, but additional behaviours and activities not codified into law, but expected.
4. **Discretionary:** not prescribed by society, up to managers.

CSR & 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 are they 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 *e.g. including social objectivity as part of their missions statements.*
- **Social programmes:** Implemented to achieve social *policies e.g. environmental management systems such as ISO 14000.*
- **Social impacts:**
 - Looking at concrete social changes that the organisation has achieved through their social programmes.
 - This is difficult to isolate the factors of change but can be estimated.
 - *E.g. equal opportunity programs can be evaluated by monitoring the composition of the workforce and benchmarking against comparable businesses.*

THE STAKEHOLDER PERSPECTIVE [CONTINUED]

Manager *and* Natural environment, shareholders, customers, community, employees, government, business partners.

CSR can be defined by the expectations and evaluations of the organisation's stakeholders.

- "Those who affect and are affected by the organisation"
- A useful and relevant framework for organising the myriad social expectations and responsibilities
- Accurately describes organisation structures



ISO 26000 (2010)

- 'Social Responsibility' is the responsibility of an organisation for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:
 - Contributes to sustainable development, including health and the welfare of society.
 - Takes into account the expectations of stakeholders
 - Is in compliance with applicable law and consistent with international norms of behaviour, and.
 - Is integrated throughout the organisation and practiced in its relationships.

BROADER ISSUES OF CSR

The current tension in today's CSR comprises 2 main views:

- **Narrow CSR:** Strictly adhering to those SRs that can be directly shown to impact profitability (neo-Friedmanite view)
- **Broad CSR:**
 - A broader, systematic role is an investment in the long-term viability of the firm, both **directly** (e.g. via employee productivity and brand risk management) and indirectly (e.g. via health of society and environment on which firm depends), even when research methods are unable to quantify the ROI due to the huge complexities at hand.

Example: NAB giving finance to Good Shepherd (indirect stakeholders). Help bottom line of the bank because community is improved.

THE EXTENDED VIEW OF CORPORATE CITIZENSHIP

Traditional View

Political legitimacy of the state:

- Rightfulness of domination granted via consent of citizens.
- Business is viewed as an extension of the self.

Extended View

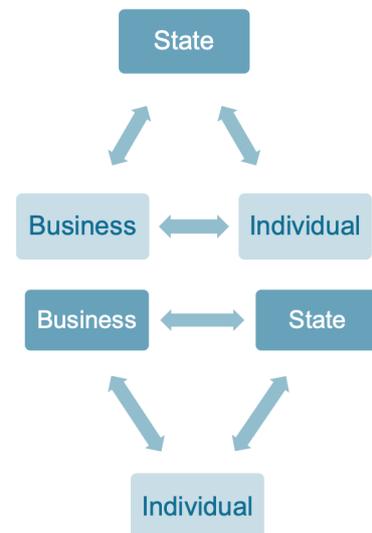
- Post privatisation and globalisation (post-nationalism), business has entered the realm formerly occupied only by govt.
- With this comes new expectations, criticisms and responsibilities.

Corporations Governing Citizenship

Responsibility for citizenship rights when there are governance gaps.

I.e. Inferior, incapable & deterritorialised entities.

- Protect citizenship rights:
 - Social rights education, health.
- Benefits of extended view:
 - Helps us better see the political role of the corporation
 - Clarifies the demand for corporate accountability
 - Understand new challenges posed by globalisation



THOUGHTS:

- If we release corporations into this sphere though, what about democracy and political principles? There is next to no discussion on this here, apart from the occasional reference to more accountability and transparency.
- Maybe that should be put on the agenda for the next decade. But this will make it a really warranted area of further research for the academic community.
- How to make this shift in governance of societies one which is really in the interest of those who are governed? Currently, our best hope is that we will be governed by all those 'benign dictators', which are currently gathered here."

SUMMARY:

- CSR has (currently) won the battle of ideas. This is partially due to:
 1. *Ethical reasons*: society now has greater expectations regarding business' social and environmental performance.
 2. *Business reasons*: business has a new understanding that CSR is consistent with best management practices of profit-maximisation
- There is no one accepted definition of CSR – it's still a 'work-in-progress'
 - ISO 26000 provides a very comprehensive, stakeholder-based account.
 - CSV has been well received, and opens firms to broader CSR

The extended view of corporate citizenship helps us to understand the new expectations and responsibilities (and criticisms) of business