“Corporations are economic entities, to be sure, but they are also social institutions that must justify their existence by their overall contribution to society.”
— Henry Mintzberg, Robert Simons, and Kunal Basu, professors

“There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say engages in free and open competition, without deception or fraud.”
— Milton Friedman, Nobel Prize–winning economist

“It takes many good deeds to build a good reputation and only one bad one to lose it.”
— Benjamin Franklin

“When morality comes up against profit, it is seldom profit that loses.”
— Shirley Chisholm, Former Congresswoman

“But I’d shut my eyes in the sentry box so I didn’t see nothing wrong.”
— Rudyard Kipling, Noted author
Chapter Learning Objectives

1. Understand where ethical standards come from.
2. Learn what drives companies to sometimes pursue unethical strategies and businesspeople to sometimes engage in unethical conduct.
3. Thoughtfully consider whether and why company strategies should be ethical and whether it is important for company personnel to display high ethical standards in conducting the company’s business.
4. Become familiar with the concepts of corporate social responsibility, corporate citizenship, and environmental sustainability.
5. Decide whether and why businesses should have a social responsibility strategy, display good corporate citizenship, and adopt environmentally sustainable business practices.

Chapter 9 Roadmap

- What Do We Mean by Business Ethics?
- Where Do Ethical Standards Come From—Are They Universal or Dependent on Local Norms?
- The Three Categories of Management Morality
- Drivers of Unethical Strategies and Business Behavior
- Why Should Company Strategies Be Ethical?
- Strategy, Social Responsibility and Corporate Citizenship

What Duties Do Firms Have Beyond Delivering Value to Customers and Shareholders?

- In the course of trying to craft and execute a strategy that delivers value to both customers and shareholders, it is well-accepted that a company and its personnel will be held accountable for obeying the law and complying with governmental regulations.
- But does a company also have a duty to:
  - Act in an ethical manner and hold all company personnel to high ethical standards?
  - Be a good corporate citizen and devote some of its resources to improving the well-being of employees, the communities in which it operates, and society as a whole?
  - Do more than what is legally required in trying to protect the environment, conserve natural resources for use by future generations, and ensure its operations do not ultimately endanger the planet?

What Do We Mean by Business Ethics?

- Business ethics is the application of general ethical principles and standards to the actions and decisions of businesses and the conduct of their personnel.
- Ethical principles in business are not materially different from ethical principles in general.
- The actions of businesses and businesspeople are judged by society’s standards of what is ethically right and wrong, not by a special set of rules that apply to business conduct.
  - If society deems dishonesty to be unethical and immoral, then dishonest behavior in business is unethical.
  - If society deems bribery unethical, then it is unethical for company personnel to offer payoffs or kickbacks to obtain sales or other favors.

Core Concept

Business ethics deals with the application of general ethical principles and standards to the actions and decisions of businesses and the conduct of their personnel.

Where Do Ethical Standards Come From?

There are three schools of thought regarding how ethical standards are determined:

- Ethical Universalism
- Ethical Relativism
- Integrative Social Contracts Theory
Maintains that the most important concepts of what is right and what is wrong are universal and transcend most cultures, societies, and religions

- Being truthful (or not lying or not being deliberately deceitful) strikes a chord of what's right in peoples of all nations
- The same is true for demonstrating integrity of character, not cheating, and treating people with courtesy and respect
- People concur that it is unethical to knowingly expose workers to toxic chemicals and hazardous materials or to sell products known to be unsafe or harmful to the users or to pillage or degrade the environment

Common moral agreement about right and wrong actions and behaviors across multiple cultures and countries gives rise to universal ethical standards that apply to members of all societies, all companies, and all businesspeople.

Examples of Universal Ethical Principles or Norms

- Being honest and telling the truth
- Being trustworthy
- Respecting rights of others
- Practicing the Golden Rule
  - Treating people with dignity and respect
- Exercising due diligence in product safety
- Acting in a manner that does not
  - Harm others or put them at risk (as concerns safety)
  - Unreasonably endanger the environment

Why the Ethical Universalism Approach to Establishing Ethical Standards Has Merit

- The strength of the ethical universalism approach to establishing ethical standards is that it draws upon the collective views of multiple societies and cultures to put clear boundaries on what constitutes ethical and unethical business behavior, irrespective of the country or culture in which a firm’s personnel are conducting activities.
- This is particularly beneficial to a multinational firm because when basic moral standards do not vary significantly from country to country, it can:
  - Apply a single code of ethics across its worldwide operations
  - Avoid the “can of worms” that comes from having different ethical standards for different company personnel depending on where in the world they are working

The School of Ethical Relativism

According to the school of ethical relativism:

- While there are a few universal moral prescriptions—like being truthful and trustworthy—that apply in most every society and business circumstance, there are meaningful variations in what societies generally agree to be fair or unfair, moral or immoral, and ethically right or wrong.
- Such variations stem from differing religious beliefs, historic traditions and customs, core values and beliefs, and behavioral norms across countries and cultures
- It is appropriate for each society or culture to rely upon its own religious beliefs, historic traditions and customs, core values and beliefs, and behavioral norms to establish its own set of ethical standards—what outsiders think is ethically right or wrong does not overrule local standards

The Implications of Ethical Relativism

If one accepts the thesis of the school of ethical relativism that each society or culture can rightfully determine its own definitions of what is ethically right or wrong, then

- Ethical standards are not absolute or universal—no “one-size-fits-all” set of ethical standards exists
- Ethical standards are appropriately grounded in the religious beliefs, historic traditions and customs, core values and beliefs, and behavioral norms prevailing within each society or culture
- One society’s set of ethical standards is just as valid as another society’s ethical standards—in other words, ethical standards are relative and subject to each society’s own judgment
- Within each society/culture, local ethical standards govern what is ethically right or wrong
Core Concept

The school of ethical relativism maintains that differing religious beliefs, historic traditions and customs, core values and beliefs, and behavioral norms across countries and cultures give rise to multiple sets of standards concerning what is ethically right or wrong.

As a consequence, whether certain business-related actions or behaviors are ethically right or wrong varies from country-to-country, depending on whatever local ethical standards prevail.

Ethical Relativism and the Use of Underage Labor

- According to the principle of ethical relativism, whether the use of underage labor in hazardous or nonhazardous jobs is ethically right or wrong depends on what country one is in.
  - In industrialized nations, the use of "underage" workers is considered unethical and is forbidden by law, most especially if some of the job activities are hazardous.
  - However, in some countries, it is customary to view children as potential, even necessary, workers.
  - Underage children are a part of the workforce in a number of the countries of the world, and in some countries underage children are employed in jobs with hazardous aspects.
- But is what prevails as local morality always an adequate or appropriate guide for setting ethical standards?
  - How can one convincingly maintain that it should be ethically permissible for a firm to hire young children for jobs (which may have hazardous aspects) in some countries but not others?

Ethical Relativism: Should It Govern the Use of Underage Labor?

- In industrialized nations, the use of "underage" workers for hazardous work is illegal and also deemed unethical, while it is unacceptable and unethical in most other societies. But in a number of countries employing underage workers is common.
  - Should ethical relativism prevail in allowing the use of underage labor for nonhazardous jobs where it is customary and socially acceptable?
  - Should the ethical standard for using underage labor be based on ethical universalism or ethical relativism?

Ethical Relativism and the Payment of Bribes and Kickbacks

- Payment of bribes and kickbacks is normal and customary in some countries; in others such payments are illegal, as well as unethical.
  - The Foreign Corrupt Practices Act prohibits U.S. firms from paying bribes anywhere they do business even if such payments are customary.
- Firms with ethical codes forbidding payment of bribes face a formidable challenge where bribery is an entrenched local custom.
  - Refusing to pay bribes or kickbacks in these countries often means losing sales to competitors willing to make such payments.
- But going along with the payment of bribes or kickbacks undercutts enforcement of and adherence to the company’s code of ethics.
- Should a firm observe ethical principles or wade into the moral quicksand of paying bribes to win sales?

Questions to Consider

- Is a firm that deems it ethically permissible for its personnel to pay bribes and kickbacks in countries where such payments are customary but ethically impermissible to make such payments elsewhere abdicating responsibility for setting the ethical standards that all of the firm’s personnel are expected to observe regarding the payment of bribes and kickbacks?
- Is a multinational company that simply tells personnel to observe whatever ethical standards prevail in the countries locations where they work strongly or weakly committed to enforcing high standards of ethical behavior among its employees?
When a company’s ethical standards vary from country to country, the clear message being sent to employees is that the company has no ethical standards or convictions of its own and prefers to let its standards of ethically right and wrong be governed by the customs and practices of the countries in which it operates. But is it a defensible practice for a multinational company to:

► Condone the payment of bribes/kickbacks in some countries but not others?
► Relax worker safety standards in some countries but not others?
► Tolerate greater environmental pollution by company plants in some countries than in others?
► Source products from foreign manufacturers known to employ child labor?

Applying multiple sets of ethical standards without a higher-order moral compass undercuts the enforcement of high standards of ethical behavior.

Managers in multinational enterprises have to figure out how to navigate the gray zone that arises when operating in multiple cultures with differing customs and ethical standards.

According to integrated social contracts theory, universal ethical principles or norms based on the collective views of multiple cultures and societies combine to form a “social contract” that all individuals, groups, organizations, and businesses in all situations have a duty to observe. Within the boundaries of this social contract, however, there is some “moral free space” for the people in a particular country (or local culture or even a company) to make specific interpretations of what other actions may or may not be ethically permissible within the bounds defined by universal ethical principles.

In instances involving universally applicable ethical norms (like paying bribes or employing children in hazardous jobs), there can be no compromise on what is ethically permissible and what is not. According to integrated social contracts theory, adherence to universal or “first-order” ethical norms should always take precedence over local or “second-order” norms.

Integrated social contracts theory incorporates the best parts of ethical universalism and ethical relativism:

► It is indisputable that cultural differences impact how business is conducted in various parts of the world and that these cultural differences sometimes give rise to different ethical norms.
► But it is just as indisputable that some ethical norms are more authentic or universally applicable than others, meaning that in many instances of cross-country differences one side may be more “ethically correct” or “more right” than another.
► In instances where universal and local ethical norms are in conflict, integrated social contracts theory maintains that complying with universal ethical norms takes precedence—the obligation to observe universal or “first-order” ethical norms outranks the obligation to observe local or “second-order” ethical norms.
The Three Categories of Management Morality

- Managers that are moral
  - Is dedicated to high standards of ethical behavior in:
    - Own actions
    - How the firm’s business is to be conducted
  - Is a steward of ethical behavior
  - Believes it is important to pursue success in business within the confines of both the letter and the spirit of what is ethical and legal
  - Regards complying with the law as an ethical minimum and has a habit of operating well above what the law requires

- Managers that are immoral
  - Has no regard for ethical standards in business
  - Pays no attention to ethical principles in making decisions and conducting the firm’s business
  - Believes good people cannot spend time watching out for others and agonizing over “the right thing to do”
  - Thinks nice guys come in second and that in the business world you either trample on others or get trampled yourself
    - What really matters is single-minded pursuit of one’s own best interests
  - Has few scruples, little or no integrity, and is willing to do most anything if unlikely to be caught
    - May even be willing to short-circuit legal and regulatory requirements

- Managers that are amoral
  - Is of the strong opinion that businesses ought to be able to do whatever the prevailing laws and regulations allow them to do
    - If business actions and behaviors are legal and do not violate prevailing rules and regulations, then they should not be seen as unethical
  - Views the observance of high ethical standards (doing more than what laws and regulations require) as too naïve for the tough competitive world of business
    - However, often believes that observing higher ethical considerations may be appropriate in life outside of business
  - Has a moral concept of right and wrong that is lawyer-driven:
    - “How much can we get by with?”
    - “What are the risks of going ahead if a particular action is borderline?”

Traits of an Moral Manager

- Is dedicated to high standards of ethical behavior in:
  - Own actions
  - How the firm’s business is to be conducted
- Is a steward of ethical behavior
- Believes it is important to pursue success in business within the confines of both the letter and the spirit of what is ethical and legal
- Regards complying with the law as an ethical minimum and has a habit of operating well above what the law requires

Traits of an Immoral Manager

- Has no regard for ethical standards in business
- Pays no attention to ethical principles in making decisions and conducting the firm’s business
- Believes good people cannot spend time watching out for others and agonizing over “the right thing to do”
- Thinks nice guys come in second and that in the business world you either trample on others or get trampled yourself
  - What really matters is single-minded pursuit of one’s own best interests
- Has few scruples, little or no integrity, and is willing to do most anything if unlikely to be caught
  - May even be willing to short-circuit legal and regulatory requirements

Traits of an Amoral Manager

- Is of the strong opinion that businesses ought to be able to do whatever the prevailing laws and regulations allow them to do
  - If business actions and behaviors are legal and do not violate prevailing rules and regulations, then they should not be seen as unethical
- Views the observance of high ethical standards (doing more than what laws and regulations require) as too naïve for the tough competitive world of business
  - However, often believes that observing higher ethical considerations may be appropriate in life outside of business
- Has a moral concept of right and wrong that is lawyer-driven:
  - “How much can we get by with?”
  - “What are the risks of going ahead if a particular action is borderline?”

Core Concept

Amoral managers believe that firms ought to be able to do whatever current laws and regulations allow them to do without being shackled by any ethical considerations. They think that what is permissible and what is not is governed entirely by prevailing laws and regulations, not by societal concepts of right and wrong (or codes of morality from whatever source).

Evidence of Managerial Immorality in the Global Business Community

- Evidence indicates a sizable majority of managers are either:
  - Amoral
  - Immoral

Recent issues of the Global Corruption Report show that corruption among public officials and in business transactions is widespread across the world
What Are the Drivers of Unethical Strategies and Business Behavior?

**Overzealous pursuit of wealth and other selfish interests**

- Managers can feel enormous pressure to do whatever it takes to deliver good results
  - Often their compensation depends heavily on company performance
  - As the pressure builds, they start stretching the rules further and further, until the limits of ethical conduct are overlooked
  - Once ethical boundaries are crossed in efforts to “meet or beat their numbers,” making more extreme ethical compromises becomes easier

**Heavy pressures on company managers to meet or beat performance targets**

- People obsessed with wealth accumulation, greed, power, status, and other selfish interests often
  - Push ethical principles aside in their quest for self gain
  - Exhibit few qualms in
    - Skirting the rules or
    - Doing whatever is necessary to achieve their goals
  - Engage in all kinds of unethical strategic maneuvers and behaviors

**A company culture that puts profitability and good business performance ahead of ethical behavior**

- In an ethically corrupt or amoral work climate, people have a company-approved license to
  - Ignore “what’s right”
  - Engage in any activity or employ any strategy they think they can get away with
  - Engage in all kinds of unethical strategic maneuvers and behaviors

**Why Should Company Strategies Be Ethical?**

- Two Reasons:
  - Because a strategy that is unethical in whole or in part is morally wrong and reflects badly on the character of the company personnel involved
  - Because an ethical strategy is good business and in the self-interest of shareholders
The Moral Case for an Ethical Strategy

- The bottom line here is simple: Pursuing ethically principled strategic actions is morally correct and represents “the right thing to do,” whereas undertaking unethical strategic actions is morally incorrect and “the wrong thing to do.”

- It reflects well on a manager’s character to insist that every strategic action be able to pass moral scrutiny, and it reflects badly on a manager’s character to initiate or condone strategic actions that are shady and outside the boundaries of what qualifies as ethical.

Whether a company ends up pursuing an ethical or unethical strategy depends on the character of the managers making the decisions of which alternatives to pursue.

The Business Case for Ethical Strategies

- Pursuit of unethical strategies and tolerance of unethical conduct
  - Is a risky practice from both a shareholder perspective and a reputational standpoint
  - Can incur large and burdensome costs when unethical behavior is discovered, wrongdoings of personnel are headlined in the media, and the firm is forced to make amends for its behavior

- The more egregious are a firm’s ethical violations
  - The higher the costs of making amends and taking corrective actions
  - The greater the damage to its reputation and to the reputations of the company personnel involved
  - The more financial damage shareholders suffer in the form of lower earnings, dividends, and stock price

FIGURE 9.1 The Costs Companies Incur When Ethical Wrongdoing Is Exposed to Public View

Unethical Behaviors Are Costly and Damage Shareholders

Shareholders suffer major damage in the form of lower earnings, a lower stock price, and perhaps lower dividends when a firm’s unethical behavior is discovered and punished.

Making amends for unethical business conduct is costly, and it can take years to rehabilitate a firm’s tarnished reputation.
The essence of socially responsible business behavior is that a firm should balance strategic actions to benefit shareholders against the **duty to be a good corporate citizen**.

A firm and its managers have a **duty to**:
- Display a **social conscience** in operating the business
- Take into account how managerial decisions and the firm’s actions affect the well-being of employees, local communities, the environment, and society at large.

Socially responsible behavior and good corporate citizenship has five components:
- Striving to employ an ethical strategy and observe ethical principles in operating the business
- Making charitable contributions, supporting worthy organizational causes, participating in community service activities, helping to make a difference in the lives of the disadvantaged, and trying to better the quality of life in society at large
- Taking actions to protect or enhance the environment and, in particular, to minimize or eliminate any adverse impact on the environment stemming from the company’s own business
- Creating a work environment that enhances employees’ quality of life and makes the company a great place to work
- Building a workforce that is diverse with respect to gender, race, national origin, and other aspects that different people bring to the workplace

A company’s **social responsibility strategy** is defined by the specific combination of socially beneficial and community citizenship activities it opts to support with its contributions of time, money, and other resources.

The notion of **social responsibility** as it applies to businesses concerns a firm’s **duty to** operate honorably, provide good working conditions for employees, be a good steward of the environment, and actively work to better the quality of life in the local communities where it operates and in society at large.

An environmental strategy entails deliberate actions to:
- Protect and enhance the sustainability of natural resources and the environment
- Maintain ecological support systems for future generations
- Guard against ultimate endangerment of the planet

**Achievement of such strategies enable a firm’s operations to be sustainable for centuries.**
Core Concept

A firm’s environmental sustainability strategy consists of its deliberate actions to protect the environment, provide for the longevity of natural resources, maintain ecological support systems for future generations, and guard against ultimate endangerment of the planet.

Social Responsibility Strategies and the Triple Bottom Line

- The “triple bottom line” or TBL
  - The profit component
    - A measure of the firm’s overall financial and strategic performance, not the bottom line of the income statement
  - The people component or “social bottom line”
    - A composite measure of the impact that the firm’s various social initiatives have on the people its operations impact
  - The planet component, or “environmental bottom line”
    - The firm’s ecological impact and its contributions to environmental sustainability of the firm and its outputs

The Moral Case for Corporate Social Responsibility and Environmentally Sustainable Business Practices

“It’s the right thing to do.”
- Ordinary decency, civic-mindedness, and contributing to the well-being of society should be expected of any business
- A firm operates on an implied social contract with society
  - Society grants a firm the right to conduct its business affairs and agrees not to unreasonably restrain its pursuit of a fair profit for the goods or services it sells
  - In return for this “license to operate,” a firm is obliged to:
    - Act as a responsible citizen
    - Do its fair share to promote the general welfare

Every firm has a moral obligation to be a good corporate citizen.

The Business Case for Corporate Social Responsibility and Environmentally Sustainable Business Practices

- There are four good business reasons why firms should be good corporate citizens:
  - Such actions can lead to increased buyer patronage
  - A strong commitment to socially responsible behavior reduces the risk of reputation-damaging incidents and lawsuits
  - Socially responsible actions yield internal benefits (particularly as concerns employee recruiting, workforce retention, and training costs) and can improve operational efficiency
  - Well-conceived social responsibility strategies work to the advantage of shareholders

Should Shareholders Support Spending on Strategies to Be Socially Responsible?

- Shareholders do not appear to be disadvantaged by a firm’s actions to be socially responsible
  - Evidence is that shareholders benefit from a well-conceived social responsibility strategy—especially from a reputation-enhancing standpoint.

The higher the public profile of a firm or its brand, the greater the scrutiny of its activities and the higher the potential for it to become a target for pressure group action.

Holding Firms Responsible for Their Social Harms

- Halting the harmful actions that result from the bad behaviors of firms usually hinges upon:
  1. The effectiveness of activist social groups in publicizing a firm’s harmful actions and marshaling public opinion for something to be done
  2. The enactment of corrective legislation or regulations
  3. Decisions on the part of socially conscious buyers to take their business elsewhere
Questions for Simulation Company
Co-Managers

- Should shareholders applaud your firm’s social responsibility strategy?
  - Could shareholders justifiably argue that management is spending too much relative to the benefits being gained?
  - What statistical evidence can you cite in defense of your firm’s spending on social responsibility and corporate citizenship?

- Would socially-concerned citizens applaud your firm’s social responsibility strategy?
  - Would they argue that you are spending too little?
  - What statistical evidence indicates that your firm is spending an “appropriate” amount on being socially responsible and a good corporate citizen?