CHAPTER 2

BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

CHAPTER OBJECTIVES

1. Define ethics, corporate social responsibility, and corporate sustainability.
2. Explore the concept of business ethics.
3. Describe sources of ethical guidance.
4. Discuss attempts at legislating ethics.
5. Explain the importance of creating an ethical culture and code of ethics.
6. Define human resource ethics.
7. Discuss the importance of linking pay to ethical behavior.
8. Describe ethics training.
9. Describe the concept of corporate social responsibility.
10. Explain corporate sustainability.
11. Describe a social audit.
12. Explain whether corporate social responsibility can succeed in the global environment.

KEY TERMS

Ethics: Discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation.
Whistleblower: Someone who participates in an activity that is protected.
Human resource ethics: Application of ethical principles to human resource relationships and activities.
Corporate social responsibility (CSR): Implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves.
Corporate sustainability: Concerns with possible future impact of an organization on society, including social welfare, the economy, and the environment.
Social audit: Systematic assessment of a company's activities in terms of its social impact.

LECTURE OUTLINE

DEFINING ETHICS, CORPORATE SOCIAL RESPONSIBILITY, AND CORPORATE SUSTAINABILITY

Ethics is the discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation. The concepts of corporate social responsibility (CSR) and corporate sustainability are related to ethics. CSR is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves. Corporate sustainability concerns with possible future impact of an organization on society, including social welfare, the economy, and the environment.

BUSINESS ETHICS

Well-publicized corrupt conduct of companies such as WorldCom and Enron and their senior managers provide many examples of unethical leadership. Even though most Fortune 500 companies have a written code of ethics, business ethics scandals continue to make headlines.

Compliance with the law sets the minimum standard for ethical behavior; however, ethics is much more. There are many dimensions to ethics, and leaders must be able and willing to instill ethics throughout the culture of an organization.

SOURCES OF ETHICAL GUIDANCE

One might use a number of sources to determine what is right or wrong, good or bad, moral or immoral. These sources include the Bible and other holy books. They also include the still, small voice that many refer to as conscience. Another source of ethical guidance is the behavior and advice of the people psychologists call significant others—our parents, friends, role models, and members of our churches, clubs, and associations. For most professionals, there are codes of ethics that prescribe certain behaviors.

LEGISLATING ETHICS

Much of the current legislation was passed because of business ethics breakdowns. There have been four attempts to legislate business ethics since the late 1980s.

- **PROCUREMENT INTEGRITY ACT of 1988**—Prohibits the release of source selection and contractor bid or proposal information. Passed after reports of military contracts for $500 toilet seats.

- **FEDERAL SENTENCING GUIDELINES FOR ORGANIZATIONS of 1992**—Outlined an effective ethics program.

- **CORPORATE AND AUDITING ACCOUNTABILITY, RESPONSIBILITY AND TRANSPARENCY ACT of 2002**—Known as the Sarbanes-Oxley Act, the primary focus of the Act is to redress accounting and financial reporting abuses in light of recent corporate scandals. The Act has teeth, because in the 2003 *Bechtel v Competitive Technologies Inc.* Supreme Court case involving wrongful termination under Sarbanes–Oxley's whistle-blower-protection rule, the Court ruled that the company violated the Act by firing two employees and ordered them reinstated.

- **DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT**—Passed in 2010, the Act has provisions relating to executive compensation and corporate governance that directly and significantly impact the executives, directors, and shareholders of publicly traded companies and continue the increased federal regulation of corporate governance and executive compensation matters.

- **WHISTLEBLOWER PROTECTION**—A *whistleblower* is someone who participates in an activity that is protected. The whistleblowing side of the Dodd-Frank is shaped after a successful IRS program. In passing the Act, Congress believed that award programs are an effective method to encourage people with information regarding violations of the law to come forward with the information to responsible law enforcement officials. The Act requires the SEC to provide an award to a qualifying whistleblower of no less than 10 percent and no greater than 30 percent of any sanction imposed against a violator of any securities laws as a result of "original information" from a whistleblower that is "voluntarily provided" to the SEC that leads to a successful enforcement or related action.

CREATING AN ETHICAL CULTURE AND A CODE OF ETHICS

Saying that a company has an ethical culture and actually having one may be two different things. One way to create and sustain an ethical culture is to audit corporate ethics, much as corporate finances are audited each year. An ethics audit is simply a systematic, independent, and documented process for obtaining evidence regarding the status of an organization's ethical culture. It takes a closer look at a firm's ethical culture instead of just allowing it to remain unexamined.

To build and sustain an ethical culture, organizations must have a comprehensive framework that includes communication of behavior expectations, training on ethics and compliance issues, stakeholder input, resolution of reported matters, and analysis of the entire ethics program. A code of ethics helps employees know what to do when there is not a rule for something. Topics typically covered in a code of ethics might be business conduct, fair competition, and workplace and HR issues. Many employers appoint an ethics officer to support the code of ethics.

HUMAN RESOURCE ETHICS

Human resource ethics can be defined as the application of ethical principles to human resource relationships and activities. Integrity and ethical behavior are top competencies for senior HR leaders. HR professionals play a key role in helping to build an ethical culture at an organization. Through practices such as selection, orientation, performance management, etc., HR can help establish an environment in which employees throughout the organization work to reduce ethical lapses.

LINKING PAY TO ETHICAL BEHAVIOR

The importance of linking pay to performance is an appropriate topic when discussing ethics. It is well known in the compensation world that "what you reward is what you get." If the statement is correct, then a problem exists because most companies do not link pay to ethical behavior.

ETHICS TRAINING

The Federal Sentencing Guidelines for Organizations Act outlined an effective ethics training program and explained the seven minimum requirements for an effective program to prevent and detect violations. Ethics training is not merely for top level managers; it should be for everyone from the bottom to the top.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves. CSR encompasses meeting economic, social, and environmental responsibilities concurrently. Many organizations have demonstrated the bottom line impact of CSR activities.

While these days more employers are publicly endorsing a culture of ethics and social responsibility, not all agree that CSR is important for companies. Milton Friedman was an American economist, statistician, academic, and author who taught at the University of Chicago for more than three decades and was a recipient of the Nobel Memorial Prize in Economic Sciences. He argued that here 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 open and free competition without deception or fraud. Friedman disciples continue to condemn CSR as a hotchpotch of "value-destroying nonsense."

CORPORATE SUSTAINABILITY

Corporate sustainability has evolved from the more traditional corporate social responsibility. According to the World Commission on Environment and Sustainability, the narrow definition of sustainability or sustainable development is "meeting the needs of the present without compromising the ability of future generations to meet their own needs." In recent years, sustainability has been changed to encompass the social, economic, environmental, and cultural systems needed to sustain any organization. This type of organization is capable of surviving both now and in the future. Increasingly, environmentally sound and cost-cutting operating procedures are also expected for suppliers and trade partners of organizations.

CONDUCTING A SOCIAL AUDIT

A **social audit** is a systematic assessment of a company's activities in terms of its social impact. Some of the topics included in the audit focus on core values such as social responsibility, open communication, treatment of employees, confidentiality, and leadership. Firms are now acknowledging responsibilities to various stakeholder groups other than corporate owners.

ANSWERS TO CHAPTER 2 QUESTIONS FOR REVIEW

2-1. What laws have been passed in an attempt to legislate ethics?

- **Procurement Integrity Act of 1988**: Passed after reports of military contracts for such things as $500 toilet seats. It prohibits the release of source selection and contractor bid or proposal information.

- **Federal Sentencing Guidelines for Organizations of 1992**: Outlined an effective ethics program.

- **Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002**: Criminalized many corporate acts that were previously relegated to various regulatory structures.

- **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010**: Has provisions relating to executive compensation and corporate governance that directly and significantly impact the executives, directors, and shareholders of publicly traded companies and continue the increased federal regulation of corporate governance and executive compensation matters.

2-2. Why is it important to have a code of ethics?

A distinction needs to be made between a code of conduct and a code of ethics; the former should tell employees what the rules of conduct are. The code of ethics helps employees know what to do when there is not a rule for something. A broad-based participation of those subject to the code is important. For a company to behave ethically, it must live and breathe its code of ethics, train its personnel, and communicate its code through its vision statements.

2-3. With regard to business ethics, what does the statement "what you reward is what you get" mean?

In compensation circles it is well know that what you reward is what you get. If the statement is correct, then a problem exists with regard to compensation because most companies do not link pay to ethical behavior.

2-4. What are HR ethics?

The application of ethical principles to human resource relationships and activities is called human resource ethics.

2-5. What are the areas in which HR professionals can have a major impact on ethics?

HR professionals can help foster an ethical culture, but that means more than just hanging the ethics codes posters on walls. Instead, since the HR professionals' primary job is dealing with people, they must help to instill ethical practices into the corporate culture. Those values must be clearly communicated to all employees, early and often, beginning with the interview process, reinforced during employee orientation, and regularly recognized during performance reviews, public ceremonies, celebrations, and awards. They need to help establish an environment in which employees throughout the organization work to reduce ethical lapses. The ethical bearing of those in HR goes a long way toward establishing the credibility of the entire organization.

2-6. What is corporate social responsibility?

Corporate social responsibility is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves. It is how a company as a whole behaves toward society.

2-7. What does corporate sustainability mean?

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2-8. Why might it be difficult for corporate social responsibility to succeed in the global environment?

Discussion Question in MyManagementLab. Student responses will vary.

DISCUSSION OF CHAPTER 2 INCIDENTS

HRM Incident 1: An Ethical Flaw

Amber Davis had recently graduated from college with a degree in general business. Amber was quite bright, although her grades did not reflect this. She had thoroughly enjoyed school, dating, playing tennis, and swimming, but found few stimulating academic endeavors. When she graduated, she had not found a job. Her dad was extremely upset when he discovered this, and he took it upon himself to see that Amber became employed.

Amber's father, Allen Davis, was executive vice president of a medium-sized manufacturing firm. One of the people he contacted in seeking employment for Amber was Bill Garbo, the president of another firm in the area. Mr. Davis purchased many of his firm's supplies from Garbo's company. After telling Bill his problem, Allen was told to send Amber to Bill's office for an interview. Amber went, as instructed by her father, and before she left Bill's firm, she was surprised to learn that she had a job in the accounting department. Amber may have been lazy, but she certainly was not stupid. She realized that Bill had hired her because he hoped that his action would lead to future business from her father's company. Although Amber's work was not challenging, it paid better than the other jobs in the accounting department.

It did not take long for the employees in the department to discover the reason she had been hired; Amber told them. When a difficult job was assigned to Amber, she normally got one of the other employees to do it, implying that Mr. Garbo would be pleased with that person if he or she helped her out. She developed a pattern of coming in late, taking long lunch breaks, and leaving early. When the department manager attempted to reprimand her for these unorthodox activities, Amber would bring up the close relationship that her father had with the president of the firm. The department manager was at the end of his rope.

QUESTIONS

2-9. From an ethical standpoint, how would you evaluate the merits of Mr. Garbo's employing Amber? Discuss.

Mr. Garbo should not have been pressured by Mr. Davis to hire his daughter, Amber. The employment of a "friend's" son or daughter may or may not be a good business practice. If Amber had been competent, mature, ambitious, energetic, and wanted to learn the business, then Mr. Garbo would have made a good decision. However, Amber did not possess these characteristics, and so Mr. Garbo's decision was based solely on his business relationship with Mr. Davis. Obviously, employment decisions should be based on business or professional judgment and not on personal relationships. Finally, it was unethical of Mr. Davis to have pressured Mr. Garbo to hire Amber.

2-10. Now that she is employed, how would you suggest that the situation be resolved?

Amber should be encouraged to become a productive member of the accounting department, or she should be replaced. It should be made clear to her that her father's connections with Mr. Garbo may have gotten her *in the door*, but will not *keep her inside* unless she becomes an effective and efficient performer.

2-11. It may be that Mr. Garbo viewed the hiring of Amber as strictly a business decision that would ensure receiving continued business from Amber's father. What might be some negative results of this questionable ethical decision?

Other workers have noticed that Amber is taking advantage of the situation. Some may use her work performance as the standard to be achieved in the department. This would prove to be a problem for them since although the department manager cannot fire Amber, other employees are not as lucky. The morale in the department is sure to suffer and the only way for it to improve is to somehow get Amber's performance up to where it should be or to get rid of Amber.

HRM Incident 2: "You Can't Fire Me"

Norman Blankenship came in the side door of the office at Consolidation Coal Company's Rowland mine, near Clear Creek, West Virginia. He told the mine dispatcher not to tell anyone he was there. Norman was general superintendent of the Rowland operation. He had been with Consolidation for 23 years, having started out as a mining machine operator.

Norman had heard that one of his section bosses, Tom Serinsky, had been sleeping on the job. Tom had been hired two months earlier and assigned to the Rowland mine by the regional personnel office. He had gone to work as section boss, working the midnight to 8:00 a.m. shift. Because of his age and experience, Serinsky was the senior person in the mine on his shift.

Norman took one of the battery-operated jeeps used to transport personnel and supplies in and out of the mine and went to the area where Tom was assigned. Upon arriving, he saw Tom lying on an emergency stretcher. Norman stopped his jeep a few yards away from where Tom was sleeping and approached him. "Hey, are you asleep?" Norman asked. Tom awakened with a start and said, "No, I wasn't sleeping."

Norman waited for Tom to collect his senses and then said, "I could tell that you *were* sleeping. But that's beside the point. You weren't at your workstation. You know that I have no choice but to fire you." After Tom had left, Norman called his mine foreman and asked him to come in and complete the remainder of Tom's shift.

The next morning, Norman had the mine HR manager officially terminate Tom. As part of the standard procedure, the mine HR manager notified the regional HR manager that Tom had been fired and gave the reasons for firing him. The regional HR manager asked the mine HR manager to get Norman on the line. The regional HR manager said, "Norm, you know Tom is Justus Frederick's brother-in-law, don't you?" Frederick was a regional vice president. "No, I didn't know that," replied Norman, "but it doesn't matter. The rules are clear. I wouldn't care if he was Frederick's son."

The next day, the regional human resource manager showed up at the mine just as Norman was getting ready to make a routine tour of the mine. "I guess you know what I'm here for," said the HR manager. "Yeah, you're here to take away my authority," replied Norman. "No, I'm just here to investigate," said the regional HR manager.

By the time Norman returned to the mine office after his tour, the regional HR manager had finished his interviews. He told Norman, "I think we're going to have to put Tom back to work. If we decide to do that, can you let him work for you?" "No, absolutely not," said Norman. "In fact, if he works here, I go." A week later, Norman learned that Tom had gone to work as section boss at another Consolidation coal mine in the region.

QUESTIONS

2-12. What would you do now if you were Norman?

Clearly, it was wrong for Tom to receive special consideration. Still, there is probably nothing Norman can do about it at this point. He should not let the inappropriate actions of others affect his own ethics, however. Norman should attempt to forget about the incident and continue doing the best job that he can as long as he chooses to work for this firm.

2-13. Do you believe the regional human resource manager handled the matter in an ethical manner? Explain.

Certainly the regional human resource manager was not ethical. There is no indication that he even went to the trouble of confronting Mr. Frederick before taking action to protect his brother-in-law, Tom. Just a minimal concern for integrity would have caused him to do that. It is possible that Mr. Frederick would have disclaimed any desire to have Tom given preferential treatment. This is just one example of a situation in which being ethical might have costs. In fact, no ethical question is involved unless there are costs associated with it. Whether Mr. Frederick wanted him to or not, the regional human resource manager should have stayed out of this situation.