

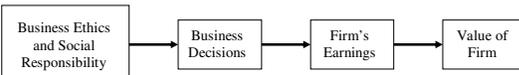
## *Chapter 2*

### **Business Ethics and Social Responsibility**

#### **Learning Objectives**

- ❶ Describe the responsibilities of firms to:
  - their customers
  - their employees
  - their stockholders and creditors
  - the environment
  - their communities
- ❷ Explain the costs that firms incur in achieving their social responsibilities.

#### **The Firm and Society**



#### **Rationale for Business Decisions**

- Unethical business decisions usually result in a benefit to one or more employees but have an adverse impact on other stakeholders or on the environment.

#### **Common Unethical Decisions**

- Car dealer tries to sell car at sticker price—receives high commission.
- Computer salesperson sells more expensive computer than customer needs.
- Manager hires friend who is not the most qualified.
- Manager tries to avoid paying employees.

#### **Impact of Unethical Decisions**

- Customers may avoid buying firm's products in the future.
- Firm may have difficulty hiring new employees.
- Firm may be unable to obtain funding in the future.
- Firm possibly subject to severe penalties imposed by the government.

## Reasons for Code of Ethics

- Increases public confidence in business.
- Less potential for government regulation due to self-control activities.
- Provides a guideline for acceptable conduct.
- Provides for a response for unethical behavior.

## Social Responsibility Considerations

- Customers
- Employees
- Stockholders
- Creditors
- Communities



## Social Responsibility to Customers

### How Businesses Ensure Responsibility:

- Safe production and ethical sales practices
- Establish code of ethics.
- Monitor customer complaints.
- Gain customer feedback.



## Social Responsibility to Customers

### How Government Ensures Responsibility:

- Regulation of product safety
- Regulation of advertising
- Regulation of industry competition

## Five Key Antitrust Laws

- 1 Sherman Antitrust Act (1890)
  - Encourages competition and prohibits monopolies.
- 2 Clayton Act (1914)
  - Prohibits tying agreements, binding contracts, interlocking directorates.
- 3 Federal Trade Commission Act (1914)
  - Prohibits unfair competition.
- 4 Robinson-Patman Act (1936)
  - Prohibits price discrimination.
- 5 Celler-Kefauver Act (1950)
  - Prohibits mergers that reduce competition within industries.

## Social Responsibility to Employees

- Employee Safety
  - Ensure a safe workplace for employees.
- Proper Treatment by Other Employees
  - Ensure no discrimination.
- Sexual Harassment
  - Ensure employees are not harassed.
- Equal Opportunity
  - Civil Rights Act (1964) and EEOC.

## Social Responsibility to Employees

### How Businesses Ensure Responsibility:

- Grievance procedure.
- Code of ethics.
- Involvement of EEOC.

## Social Responsibility to Stockholders

- Monitor employee decisions to ensure they are in the best interest of stockholders.
- Ensure funds invested by stockholders are put to good use.
- Sarbanes-Oxley Act
- Justify executive compensation.

## Conflict With Excessive Executive Compensation

- Compensation of executives has increased dramatically
  - 1980: 42 times the average compensation of employees
  - 1990: 85 times the average compensation of employees
  - 2000: 500 times the average compensation of employees

## Social Responsibility to Creditors



### Firms must:

- Meet financial obligations.
- Inform creditors if having financial problems.

## Violations of Responsibility

- Providing misleading financial information that exaggerates financial condition
  - *Enron*
  - *Oracle*
  - *Global Crossing*
  - *ImClone*

## Social Responsibility to the Environment

- Prevention of air pollution:
  - Revise production process.
  - Government enforcement of guidelines (e.g., Environmental Protection Agency).
- Prevention of land pollution:
  - Revise production and packaging processes.
  - Store and deliver toxic waste to sites.

### **Social Responsibility to Community**

- Sponsor local events.
- Donate to local charities.
- Donate monies for educational purposes.

### **Social Responsibility: Examples**

- Apple and IBM
  - Invest in education programs
- Home Depot
  - Donates to community programs for housing projects
  - Provided supplies and equipment to 9/11 rescue efforts
- Checkers
  - Provides jobs for inner-city residents
- Coca-Cola
  - Sponsors Boys and Girls Clubs

### **Social Responsibility: Examples**

- Ace Hardware
  - Foundation has donated more than \$20 million to communities it serves
  - 9/11 donated three tractor-trailer loads of equipment
- Dow Chemical Corporation
  - Created Community Advisory Panel
  - Funds education programs in South America
  - Habitat for Humanity project in Korea
  - New art center in West Virginia

### **Cost of Ensuring Social Responsibilities**

- Customers
  - Program to receive/resolve complaints.
  - Surveys to assess satisfaction.
  - Lawsuits by customers (product liability).
- Employees
  - Program to receive/resolve complaints.
  - Surveys to assess employee satisfaction.
  - Lawsuits by employees (discrimination).
- Stockholders
  - Disclosing financial information.
  - Lawsuits by stockholders.
- Environment
  - Complying with environmental regulations.
  - Complying with self-imposed environmental guidelines.
- Community
  - Sponsoring community activities.