Chapter 2

Business Ethics and Social Responsibility

Learning Objectives

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

The Firm and Society

Business Ethics and Social Responsibility

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.

**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.