

# Chapter 2

## Business Ethics and Social Responsibility

### Chapter Outline

Introduction

Business Ethics and Social Responsibility

The Role of Ethics in Business

Recognizing Ethical Issues in Business

Improving Ethical Behaviour in Business

The Nature of Social Responsibility

Social Responsibility Issues

### Objectives

After reading this chapter, you will be able to:

- Define business ethics and examine its importance.
- Detect some of the ethical issues that may arise in business.
- Specify how businesses can promote ethical behaviour.
- Define social responsibility and explain its relevance to business.
- Debate an organization's social responsibilities to owners, employees, consumers, the environment, and the community.
- Evaluate the ethics of a business's decision.

# Enter the World of Business

## The Leopard Did Change His Spots—They Grew

The son of a wealthy brewery executive, Conrad Moffat Black was born August 25, 1944, in Montreal. After leaving home at age 18, he earned a history degree at Carleton University, a law degree at Laval, and an MA from McGill. An avid student of history, he has written several books (including an autobiography) about political figures such as Maurice Duplessis, Napoleon, and most recently, Franklin Roosevelt.

Mr. Black purchased his first newspaper, the Sherbrooke Record, when he was 25 years old. Two years later, he added about 20 Canadian newspapers to his belt with the acquisition of the Sterling Company chain. Five years later, at age 33, he gained control of Argus Corporation (the parent company of Massey-Ferguson, a then prominent maker of farm machinery) and Domtar mining, and he acquired other interests including of course, more newspaper companies.

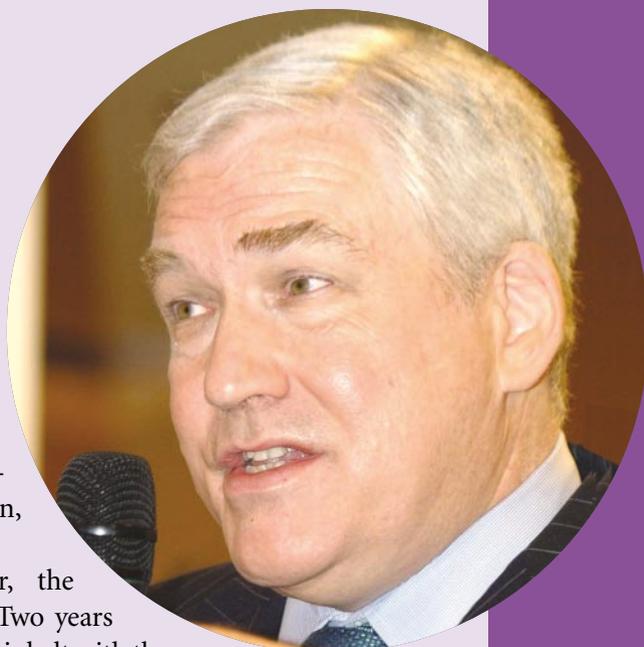
The audacious, and some say ruthless, businessman followed a system of buying up titles in trouble, and then selling assets and downsizing until at one point he controlled more than half of Canada's newspaper companies.

In a well-publicized disagreement with former Prime Minister Jean Chretien, Black renounced his Canadian citizenship to allow for his induction into the British House of Lords as Lord Black of Crossharbour on October 31, 2001.

Two years later, Lord Black faced disgrace and financial loss when on November 17, 2003, he stepped down as CEO of US-based newspaper conglomerate Hollinger International. The resignation followed the findings of a special committee that accused Black and other senior Hollinger executives, including COO David Radler, of receiving \$31.15 million in unauthorized payments. Denying any wrongdoing, Black described his departure as a "retirement."

Numerous other allegations of financial malfeasance have resulted in a number of legal actions in both Canada and the US totalling hundreds of millions of dollars. As of early 2004, the suits have not been settled and the allegations remain unproven.

It is said that those who fail to study history are doomed to repeat the mistakes of the past. Conrad Black, as a student of history, would know this. Perhaps the investment and business community would have been well served by studying the history of Lord Black. His first known business venture in his youth involved an enterprise that sold exam papers, which resulted in his expulsion from school. As students of history and business, we should consider if there has been any real change in his ethical behaviour.<sup>1</sup>



## INTRODUCTION

As the opening vignette illustrates, determining how to conduct business appropriately can be challenging. Wrongdoing by businesses has focused public attention and government involvement to encourage more acceptable business conduct. Any business decision may be judged as right or wrong, ethical or unethical, legal or illegal.

In this chapter, we will take a look at the role of ethics and social responsibility in business decision making. First, we define business ethics and examine why it is important to understand ethics' role in business. Next, we explore a number of business ethics issues to help you learn to recognize such issues when they arise. Finally, we consider steps businesses can take to improve ethical behaviour in their organizations. The second half of the chapter focuses on social responsibility. We define social responsibility and then survey some important responsibility issues and how companies have responded to them.

## BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

### business ethics

principles and standards that determine acceptable conduct in business organizations

In this chapter, we define **business ethics** as the principles and standards that determine acceptable conduct in business organizations. The acceptability of behaviour in business is determined by customers, competitors, government regulators, interest groups, and the public, as well as each individual's personal moral principles and values. For example, the Competition Bureau of Canada announced on August 18, 2003, that Akzo Nobel Chemicals BV pleaded guilty in the Federal Court of Canada and was sentenced to fines totalling \$2.9 million for its part in conspiracies to fix prices in the market for an important animal feed additive and a chemical used in numerous commercial and consumer products.<sup>2</sup>

Many consumers and social advocates believe that businesses should not only make a profit but also consider the social implications of their activities. We define social responsibility as a business's obligation to maximize its positive impact and minimize its negative impact on society. Although many people use the terms *social responsibility* and *ethics* interchangeably, they do not mean the same thing. Business ethics relates to an *individual's* or a *work group's* decisions that society evaluates as right or wrong, whereas social responsibility is a broader concept that concerns the impact of the *entire business's* activities on society. From an ethical perspective, for example, we may be concerned about a health care organization or practitioner overcharging the provincial government for medical services. From a social responsibility perspective, we might be concerned about the impact that this overcharging will have on the ability of the health care system to provide adequate services for all citizens.

The most basic ethical and social responsibility concerns have been codified as laws and regulations that encourage businesses to conform to society's standards, values, and attitudes. At a minimum, managers are expected to obey these laws and regulations. Most legal issues arise as choices that society deems unethical, irresponsible, or otherwise unacceptable. However, all actions deemed unethical by society are not necessarily illegal, and both legal and ethical concerns change over time. Business law refers to the laws and regulations that govern the conduct of business. Many problems and conflicts in business can be avoided if owners, managers, and employees know more about business law and the legal system. Business ethics, social responsibility, and laws together act as a compliance system requiring that businesses and employees act responsibly in society.

## THE ROLE OF ETHICS IN BUSINESS

Although we will not tell you in this chapter what you ought to do, others—your superiors, coworkers, and family—will make judgments about the ethics of your actions and decisions. Learning how to recognize and resolve ethical issues is an important step in evaluating ethical decisions in business.

You have only to pick up *The National Post* or *The Globe and Mail Report on Business* to see how truly difficult it is to deal with legal and ethical issues. In an Ethics Officer Association survey, 48 percent of employees surveyed indicated they had done something unethical or illegal in the past year. The costs of unethical and fraudulent acts committed by US employees total US\$400 billion annually.<sup>3</sup> Such losses are significant, but the impact of a single environmental error on a corporation can be staggering. It is reported that the total cost to Exxon to settle claims related to the *Valdez* oil spill off the coast of Alaska was US\$3.2 billion. During the period between the spill in 1989 and the settlement in 1995, Exxon's reported profits totalled US\$5.8 billion.<sup>4</sup>

Allegations against Talisman Energy Inc. surrounding their activities in Sudan in conjunction with their 25 percent ownership of the Greater Nile Oil Project have also been costly. Share prices were battered and ultimately Talisman's interest in the project was sold to the state-owned Oil Company of India. Even the sale of their investment has not resolved the matter; a lawsuit was launched against Talisman by an organization called the American Anti-Slavery Group on behalf of southern Sudanese caught in the crossfire of Sudan's 18-year-old civil war. Talisman sought dismissal of the suit on the grounds that it was improperly brought in the United States. However, in March of 2003 a US judge ruled that Talisman could be held liable for genocide if there is proof that the company co-operated with the Sudanese government to wage war on civilians near the oil fields. This decision does not reflect the outcome of the case. It means the judge has decided jurisdictionally that he can hear the case. Investors do not like uncertainty and the continuation of the case will not only result in significant legal costs for Talisman but is likely to have a continued detrimental effect on the value of Talisman shares.

It is not just altruism that motivates corporations to operate in a socially responsible manner, but also consideration of the "bottom line." There are good business reasons for a strong commitment to ethical values:

1. Ethical companies have been shown to be more profitable.
2. Making ethical choices results in lower stress for corporate managers and other employees.
3. Our reputation, good or bad, endures.
4. Ethical behaviour enhances leadership.
5. The alternative to voluntary ethical behaviour is demanding and costly regulation.

Regular readers of the news will have seen reports of unethical or aggressive sales tactics used to prey upon vulnerable consumers, most often seniors. Examples include persons claiming to be inspectors, citing roof and chimney repairs as being needed or even required by law. Others, while not resorting to such subterfuge, utilize sales techniques that are confusing or hard to resist for the vulnerable. In the past, persons falling prey to such tactics who signed purchase contracts in their homes had, in Ontario, only 24 hours to rescind the contract. Such direct sales contracts had to be

cancelled in writing. As of May 18, 2001, the Ontario Consumer Protection Act provides a ten-day “cooling-off” period in which to cancel a direct sales contract worth \$50 or more. This is just one example of the ongoing efforts of both the federal and provincial governments in Canada to respond to unethical business practices.

It is important to understand that business ethics goes beyond legal issues. Ethical conduct builds trust among individuals and in business relationships, which validates and promotes confidence in business relationships. Establishing trust and confidence is much more difficult in organizations that have established reputations for acting unethically. If you were to discover, for example, that a manager had misled you about company benefits when you were hired, your trust and confidence in the company would probably diminish. And, if you learned that a colleague had lied to you about something, you probably would not trust or rely on that person in the future. KPMG, a leading accounting and consulting firm, provides assistance to firms that want to develop ethics programs to avoid ethical problems and build trust and integrity in business relationships.

Well-publicized incidents of unethical activity—ranging from health care fraud to using the Internet to gain personal information from young children to charges of deceptive advertising of food and diet products to unfair competitive practices in the computer software industry—strengthen the public’s perception that ethical standards and the level of trust in business need to be raised.

## RECOGNIZING ETHICAL ISSUES IN BUSINESS

Learning to recognize ethical issues is the most important step in understanding business ethics. An **ethical issue** is an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical. In business, such a choice often involves weighing monetary profit against what a person considers appropriate conduct. The best way to judge the ethics of a decision is to look at a situation from a customer’s or competitor’s viewpoint: Should liquid-diet manufacturers make unsubstantiated claims about their products? Should an engineer agree to divulge her former employer’s trade secrets to ensure that she gets a better job with a competitor? Should a salesperson omit facts about a product’s poor safety record in his presentation to a customer? Such questions require the decision maker to evaluate the ethics of his or her choice.

Not all shortcomings in business ethics are global in scope. Many affect us more directly and with greater immediacy. With the increasing complexity of modern cars, fewer people can assess the appropriateness of repairs made by mechanics or the fairness of the charge for carrying out those repairs. The Automobile Protection Association periodically uses a “Mystery Car” to evaluate auto repairs facilities. Their tests in May of 2002 found that the chances of overpaying for auto repairs were one in three. While some overcharges may be the result of honest error, it seems unlikely that the rate would be that high. Using a newly serviced vehicle with a disconnected vacuum hose as the test, the APA encountered repair costs ranging from no charge at a Vancouver Canadian Tire to \$670 at Minit-tune and Brake, also in Vancouver. A total of 39 shops were tested in Vancouver, Montreal, and Toronto. Thirteen shops overcharged for work done or performed unnecessary repairs for a failure rate of 33 percent. Our financial well-being and that of honest businesses requires not only that we be aware of the high profile cases reported in the news but also that we exercise vigilance in our daily activities.<sup>5</sup>

Many business issues may seem straightforward and easy to resolve, but in reality, a person often needs several years of experience in business to understand what is ac-

### ethical issue

an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical

ceptable or ethical. For example, if you are a salesperson, when does offering a gift—such as season basketball tickets—to a customer become a bribe rather than just a sales practice? Clearly, there are no easy answers to such a question. But the size of the transaction, the history of personal relationships within the particular company, as well as many other factors may determine whether an action will be judged as right or wrong by others. When Wal-Mart began selling sandals that strongly resembled the popular Teva brand, Mark Thatcher, founder of the Teva Sports Sandal, took notice. Sales of Teva sandals fell from US\$69 million to US\$42 million, and company executives believed this was because Wal-Mart was selling copies (or “knock-offs”) for 25 percent less. This ethical issue of right or wrong was resolved in court. Teva won the lawsuit, and Wal-Mart agreed to stop selling the shoes.<sup>6</sup>



A 1999 survey by KPMG found that 72.7 percent of companies have some sort of program focused on promoting ethical values and principles.

Ethics are also related to the culture in which a business operates. In Canada or the United States, for example, it would be inappropriate for a businessperson to bring an elaborately wrapped gift to a prospective client on their first meeting—the gift could be viewed as a bribe. In Japan, however, it is considered impolite *not* to bring a gift. Experience with the culture in which a business operates is critical to understanding what is ethical or unethical.



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## Ethical Issues

To help you understand ethical issues that perplex businesspeople today, we will take a brief look at some of them in this section. The vast number of news-format investigative programs has increased consumer and employee awareness of organizational misconduct. In addition, the multitude of cable channels and Internet resources has improved the awareness of ethical problems among the general public.

An Ethics Resource Center/Society for Human Resource Management survey of US employees indicates that workers witness many instances of ethical misconduct in their organizations. The specific percentages are noted in Table 2.1. Note that workers report multiple observations of ethical misconduct; therefore, each category is an independent question of observed misconduct. When employees were asked the principal causes of unethical behaviour in their organizations, the key factor reported was overly aggressive financial or business objectives. Many of these issues relate to decisions and concerns that managers have to deal with daily. It is not possible to discuss every issue, of course. However, a discussion of a few issues can help you begin to recognize the ethical problems with which businesspersons must deal. Many ethical issues in business can be categorized in the context of their relation to conflicts of interest, fairness and honesty, communications, and business associations.

Lying to supervisors	45%
Falsifying records	36
Alcohol and drug abuse	36
Conflict of interest	34
Stealing or theft	27
Gift receipt/entertainment in violation of company policy	26

**Table 2.1**

*Percentage of Workers Who Say These Ethical Infractions Are Committed by Coworkers*

Source: Ethics Resource Center/Society for Human Resource Management, 1997 Business Ethics Survey Report, p. 20.

## Consider Ethics and Social Responsibility

### *Legal in Canada—But is it Ethical?*



On March 31, 2004, Federal Court of Canada Justice Konrad van Finckenstein, in a 28-page ruling, stated that, “no evidence was presented that the alleged infringers either distributed or authorized the reproduction of sound recordings,” and that “They merely placed personal copies into their shared directories which were accessible by other computer users via a P2P service.” The ruling stipulated:

- Downloading a song for personal use is not an infringement.
- Placing a song in an online music-sharing directory such as Kazaa is not considered distribution.

The ruling denied the Canadian Recording Industry Association (CRIA) the court order needed to identify 29 uploaders that the CRIA claims illegally posted hundreds of songs on the Internet. This prevents the CRIA from seeking damages from these individuals through legal action.

In the US, the Recording Industry of America (RIAA) has sued about 400 individuals for sharing music files on-

line. Several have settled for about US\$3,000 each.

On March 30, 2004, the RIAA sent warning letters to 247 people in Denmark, Germany, Italy, and Canada. On April 28, 2004, it was reported that the RIAA has filed a further 4,477 lawsuits against file sharers, and the Recording Industry Association of Japan has mailed over 600,000 letters warning people about sharing music and software on the Internet.

The music industry claims such sharing has reduced sales of CDs by as much as 20 percent in Canada. The CRIA estimates the loss to be about \$250 million over the past three years.

A Harvard Business School study released in March 2004 claims that swapping has no impact on sales. Other studies contradict these findings.

The real question is not one of legality, or of real and potential income losses. The question is, if the music is the intellectual property created and owned by the artist or by those to whom he has sold it, is it ethical to share the file without the artist’s authorization?<sup>7</sup>

**Conflict of Interest.** A conflict of interest exists when a person must choose whether to advance his or her own personal interests or those of others. For example, a manager in a corporation is supposed to ensure that the company is profitable so that its stockholder-owners receive a return on their investment. In other words, the manager has a responsibility to investors. If she instead makes decisions that give her more power or money but do not help the company, then she has a conflict of interest—she is acting to benefit herself at the expense of her company and is not fulfilling her responsibilities. To avoid conflicts of interest, employees must be able to separate their personal financial interests from their business dealings. Perhaps one of the most widely publicized cases of conflict of interest in Canada was the acquisition of control of Maple Leaf Gardens Ltd. by Steven Stavro. After the death of his friend Harold Ballard in 1990, Stavro decided to purchase controlling interest in MLG. As a trustee of the Ballard estate and a member of the Board of Directors of MLG, Stavro had a fiduciary duty to obtain the best possible price for the shares. As the potential purchaser, it was of course in his best interest to obtain the shares as cheaply as possible—a classic conflict of interest. Stavro attempted to overcome the conflict by hiring Nesbitt Burns and RBC Dominion to carry out a valuation of the shares. Stavro offered a \$2.00 premium over the valuation price of \$32. While he did eventually gain control, it was only after legal challenges from Harold Ballard’s son, William, and the Public Trustee who oversaw the charities in Ballard’s will.

As mentioned earlier, it is considered improper to give or accept **bribes**—payments, gifts, or special favours intended to influence the outcome of a decision. A bribe is a conflict of interest because it benefits an individual at the expense of an organization or society. Wal-Mart Stores, Inc., may have the toughest policy against conflict of interest in the retail industry. Sam Walton, the late founder of Wal-Mart, prohibited company buyers from accepting so much as a cup of coffee from suppliers. The Wal-Mart policy is black and white and leaves no room for interpretation, and it is probably a factor in helping Wal-Mart reduce costs. Other retailers typically allow buyers to accept meals, small gifts, and outings such as golf, fishing, or hunting trips. Defence contractors, such as Lockheed Martin and Texas Instruments, have strict gift policies, as does the Royal Bank of Canada.

**bribes**

payments, gifts, or special favours intended to influence the outcome of a decision

**Fairness and Honesty.** Fairness and honesty are at the heart of business ethics and relate to the general values of decision makers. At a minimum, businesspersons are expected to follow all applicable laws and regulations. But beyond obeying the law, they are expected not to harm customers, employees, clients, or competitors knowingly through deception, misrepresentation, coercion, or discrimination. A recent survey showed that nearly one-fourth of workers have been asked to engage in an unethical act at work, and 41 percent carried out the act.<sup>8</sup>

One aspect of fairness relates to competition. Although numerous laws have been passed to foster competition and make monopolistic practices illegal, companies sometimes gain control over markets by using questionable practices that harm competition. Rivals of Microsoft, for example, have accused the software giant of using unfair and monopolistic practices to maintain market dominance with its Microsoft Network web browser. Competitors such as Netscape feel at a competitive disadvantage since the Microsoft Network is coupled with the Windows operating system and is readily available to 90 percent of the PC market. The US Justice Department has claimed that “Microsoft wanted to hurt rival Netscape at all costs.” The initial court judgment found in favour of the Justice Department. By November 2001 Microsoft had reached a tentative agreement with the Justice Department and nine of the 18 states that had filed the antitrust suit. In January of 2002 Netscape launched an antitrust lawsuit citing the same grounds that were used in the Justice Department’s suit.<sup>9</sup> Microsoft continues to be under legal attack in 2004—in March the European Competition Commission assessed a record fine against the firm and in April Microsoft settled privately with Sun Microsystems for about \$2 billion.<sup>10</sup>

Another aspect of fairness and honesty relates to disclosure of potential harm caused by product use. When Procter & Gamble introduced Olestra, the low-cholesterol fat substitute, products in which it was used had labels warning consumers of potential problems with abdominal cramping.

Dishonesty has become a significant problem in North America. In a study conducted by the Josephson Institute, 92 percent of older teenagers admitted to lying and 70 percent admitted to cheating on tests. However, 97 percent of those surveyed say that good character is important, while 69 percent believe that the ethics of this generation are satisfactory.<sup>11</sup>

**Communications.** Communications is another area in which ethical concerns may arise. False and misleading advertising, as well as deceptive personal-selling tactics, anger consumers and can lead to the failure of a business. Truthfulness about product safety and quality are also important to consumers. In the pharmaceutical industry, for example, dietary supplements, such as herbs, are sold with limited regulation and testing, and many supplements are sold by small, independent marketers. Some tests show that herbs, such as ginseng, may be sold without enough of the ac-

## Solve the Dilemma

### Customer Privacy



Checkers Pizza was one of the first to offer home delivery service, with overwhelming success. However, the major pizza chains soon followed suit, taking away Checkers's competitive edge. Jon Barnard, Checkers's founder and co-owner, needed a new gimmick to beat the competition. He decided to develop a computerized information database that would make Checkers the most efficient competitor and provide insight into consumer buying behaviour at the same time. Under the system, telephone customers were asked their phone number; if they had ordered from Checkers before, their address and previous order information came up on the computer screen.

After successfully testing the new system, Barnard put the computerized order network in place in all Checkers outlets. After three months of success,

he decided to give an award to the family that ate the most Checkers pizza. Through the tracking system, the company identified the biggest customer, who had ordered a pizza every weekday for the past three months (63 pizzas). The company put together a program to surprise the family with an award, free-food certificates, and a news story announcing the award. As Barnard began to plan for the event, however, he began to think that maybe the family might not want all the attention and publicity.

1. What are some of the ethical issues in giving customers an award for consumption behaviour without notifying them first?
2. Do you see this as a potential violation of privacy? Explain.
3. How would you handle the situation if you were Barnard?

tive ingredients to be effective. Now, large pharmaceutical firms, such as Warner-Lambert, are entering the US\$4 billion herb market and communicating the quality control and credibility associated with their names.<sup>12</sup> However, ample opportunities remain for unethical firms to mislead consumers about herbal products.

Some manufacturers fail to provide enough information for consumers about differences between products. In the contact-lens-solution market, a number of manufacturers are marketing identical products with different prices. Bausch & Lomb, for example, priced its one-ounce bottle of Sensitive Eyes Drops at about \$5.65. But a 12-ounce bottle of its Sensitive Eyes Saline Solution, which had the same ingredients and formulation but a different label, was priced at \$2.79. Other manufacturers do the same thing. Says consultant Jack Trout, "It's not only a sneaky way to make money, but it's lousy marketing, the type of thing that backfires . . . when it's made public."<sup>13</sup>

Another important aspect of communications that may raise ethical concerns relates to product labelling. Health warnings on cigarette packages were first imposed by federal law in 1989. In 1994 a new set of eight messages were required that covered the top 35 percent of each main display surface of a cigarette package. The Canadian system was adopted by Australia, Thailand, and Poland. The 1994 warnings also led to legislative proposals in both the United States and the European Union.



*Managers have the responsibility to create a work environment that helps an organization maintain ethical business relationships while achieving its objectives.*

In 1995 the Supreme Court of Canada ruled large parts of the Tobacco Products Control Act unconstitutional, removing the legal basis for imposing the warnings.

New regulations were passed on June 26, 2000. The new act, requiring even more graphic warnings on 50 percent of the package panels, combined with inside package messages about health damage caused by tobacco and information about quitting, has also been challenged in court. The Quebec Superior Court ruled in favour of the government. Canadians are more willing to accept the guidance of government censors, and we have an almost complete ban on tobacco advertising under the Federal Tobacco Act of 1998.

**Business Relationships.** The behaviour of businesspersons toward customers, suppliers, and others in their workplace may also generate ethical concerns. Ethical behaviour within a business involves keeping company secrets, meeting obligations and responsibilities, and avoiding undue pressure that may force others to act unethically.

Managers, in particular, because of the authority of their position, have the opportunity to influence employees' actions. For example, a manager can influence employees to use pirated computer software to save costs. The use of illegal software puts the employee and the company at legal risk, but employees may feel pressured to do so by their superior's authority. On the other hand, new network management programs enable managers to try to control when and where software programs can be used. This could introduce an issue of personal privacy: Should your company be able to monitor your computer? Unauthorized copying of games and other programs has exposed companies to copyright-infringement suits, computer viruses, and system overload as well as the loss of productivity from employees spending time playing games.<sup>14</sup>

It is the responsibility of managers to create a work environment that helps the company achieve its objectives and fulfill its responsibilities. However, the methods that managers use to enforce these responsibilities should not compromise employee rights. Organizational pressures may encourage a person to engage in activities that he or she might otherwise view as unethical, such as invading others' privacy or stealing a competitor's secrets. Or the firm may provide only vague or lax supervision on ethical issues, providing the opportunity for misconduct. Managers who offer no ethical direction to employees create many opportunities for manipulation, dishonesty, and conflicts of interest.

**Plagiarism**—taking someone else's work and presenting it as your own without mentioning the source—is another ethical issue. As a student, you may be familiar with plagiarism in school, for example, copying someone else's term paper or quoting from a published work without acknowledging it. In business, an ethical issue arises when an employee copies reports or takes the work or ideas of others and presents them as his or her own. A manager attempting to take credit for a subordinate's ideas is engaging in another type of plagiarism. Several well-known musicians, including Michael Jackson, George Harrison, and Michael Bolton, have been accused of taking credit for the work of others.

### plagiarism

the act of taking someone else's work and presenting it as your own without mentioning the source

## Making Decisions about Ethical Issues

Although we've presented a variety of ethical issues that may arise in business, it can be difficult to recognize specific ethical issues in practice. Whether a decision maker recognizes an issue as an ethical one often depends on the issue itself. Managers, for example, tend to be more concerned about issues that affect those close to them, as well as issues that have immediate rather than long-term consequences. Thus, the

**Table 2.2**

*Questions to Consider in Determining Whether an Action Is Ethical*

- Are there any potential legal restrictions or violations that could result from the action?
- Does your company have a specific code of ethics or policy on the action?
- Is this activity customary in your industry? Are there any industry trade groups that provide guidelines or codes of conduct that address this issue?
- Would this activity be accepted by your coworkers? Will your decision or action withstand open discussion with coworkers and managers and survive untarnished?
- How does this activity fit with your own beliefs and values?
- How would you feel if your actions were published in the newspaper?

perceived importance of an ethical issue substantially affects choices, and only a few issues receive scrutiny, while most receive no attention at all.<sup>15</sup>

Table 2.2 lists some questions you may want to ask yourself and others when trying to determine whether an action is ethical. Open discussion of ethical issues does not eliminate ethical problems, but it does promote both trust and learning in an organization.<sup>16</sup> When people feel that they cannot discuss what they are doing with their coworkers or superiors, there is a good chance that an ethical issue exists. Once a person has recognized an ethical issue and can openly discuss it with others, he or she has begun the process of resolving an ethical issue. Companies subcontracting manufacturing operations abroad are now aware of the ethical issues associated with supporting facilities that abuse and/or underpay their work forces. Such facilities have been termed “sweatshops.” Maximizing profits is often the motivation behind a company’s decision to utilize sweatshops. For each \$14.99 pair of J.C. Penney Arizona jeans, workers earn 11 cents. For each \$12.00 Victoria’s Secret garment made, employees earn 3 cents. Wal-Mart, Kmart, and Nike also have been accused by the US National Labor Committee of outsourcing production to countries with low wages to boost profitability.<sup>17</sup> New codes of conduct have been established to assist companies in identifying and addressing these ethical issues.

Ethical decisions involve questions about how we ought to behave. The decision process must consider cultural and religious background. A review of the literature will reveal many possible frameworks for making ethical and moral decisions, but all will consider the matter relative to those standards held important by the decision maker. Such traits as honesty, compassion, and fairness, as well as the individual’s sense of right and wrong, will play an important part.

One five-step framework published by the Markkula Center for Applied Ethics is:

1. Recognize a moral issue.
2. Get the facts.
3. Evaluate the alternative actions from various moral perspectives.
4. Make a decision.
5. Act, then reflect on the decision later.

## IMPROVING ETHICAL BEHAVIOUR IN BUSINESS

Understanding how people make ethical choices and what prompts a person to act unethically may reverse the current trend toward unethical behaviour in business.

Ethical decisions in an organization are influenced by three key factors: individual moral standards, the influence of managers and coworkers, and the opportunity to engage in misconduct (Figure 2.1). While you have great control over your personal ethics outside the workplace, your coworkers and management team exert significant control over your choices at work through authority and example. In fact, the activities and examples set by coworkers, along with rules and policies established by the firm, are critical in gaining consistent ethical compliance in an organization. If the company fails to provide good examples and direction for appropriate conduct, confusion and conflict will develop and result in the opportunity for misconduct. If your boss or coworkers leave work early, you may be tempted to do so as well. If you see coworkers making personal long-distance phone calls at work and charging them to the company, then you may be more likely to do so also. In addition, having sound personal values contributes to an ethical workplace.

It is difficult for employees to determine what conduct is acceptable within a company if the firm does not have ethics policies and standards. And without such policies and standards, employees may base decisions on how their peers and superiors behave. Professional **codes of ethics** are formalized rules and standards that describe what a company expects of its employees. The Ethics Officer Association is a professional association of top managers in 500 companies who have responsibility for developing ethical policies and programs for their organizations, with members based in Australia, Canada, France, Germany, Great Britain, India, Japan, Switzerland, and the United States.

Codes of ethics, policies on ethics, and ethics training programs advance ethical behaviour because they prescribe which activities are acceptable and which are not, and they limit the opportunity for misconduct by providing punishments for violations of the rules and standards. The enforcement of such codes and policies through rewards and punishments increases the acceptance of ethical standards by employees.

Enforcement of ethics policies is a common way of dealing with ethical problems. A survey by the US Ethics Resource Center on attitudes toward and knowledge of ethics and ethics programs indicated that employees' personal ethics improve when their organization has a comprehensive ethics training program. In addition, the study found that individuals in companies that have ethics training programs believe that their business ethics have improved during the course of their careers.<sup>18</sup> These findings suggest that people do bring a set of personal values into an organization, and, further, that organizational pressures affect not only how individuals conduct themselves within the organization but also can improve their personal ethics outside of work.

The Conference Board of Canada points out that having an ethics program is not only part of being a socially responsible corporation but is also likely to increase profitability. Lost sales, legal fees, and fines, and the demoralization of the work force resulting from unethical behaviour can be very costly. In an effort to avoid such costs, many Canadian organizations are implementing ethics programs to ensure that employee behaviour is in accordance with corporate values and relevant legislation.<sup>19</sup>

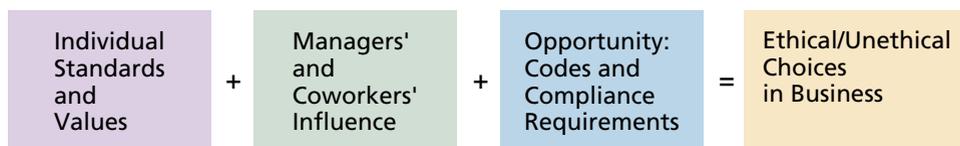
### codes of ethics

formalized rules and standards that describe what a company expects of its employees



Conference Board  
of Canada  
[www.conferenceboard.ca/](http://www.conferenceboard.ca/)

**Figure 2.1** *Three Factors that Influence Business Ethics*



Because ethical issues often emerge from conflict, it is useful to examine the causes of ethical conflict. Business managers and employees often experience some tension between their own ethical beliefs and their obligations to the organizations in which they work.

Many employees utilize different ethical standards at work than they do at home. This conflict increases when employees feel that their company is encouraging unethical conduct or exerting pressure on them to engage in it. Figure 2.2 shows that over 25 percent of employees believe that this pressure is real.

Individuals also play a key role in promoting ethical decisions in the workplace. **Whistleblowing** occurs when an employee exposes an employer's wrongdoing to outsiders, such as the media or government regulatory agencies. However, more companies are establishing programs to encourage employees to report illegal or unethical practices internally so that they can take steps to remedy problems before they result in legal action or generate negative publicity. Unfortunately, whistleblowers are often treated negatively in organizations.

Recent business failures, including Enron, have focused renewed attention on whistleblowing. Companies, US companies in particular, have adopted a sophisticated array of options to facilitate whistleblowing including 24-hour hotlines and corporate ethics officers.

A recent survey carried out by the Public Service Alliance of Canada indicates that 89 percent of Canadians want the government to bring in legislation so that public sector workers who expose government wrongdoing would be protected against any reprisals.

Dr. Nancy Olivieri, a faculty member at the University of Toronto, was carrying out research at the Hospital for Sick Children on a drug for treating the blood disease thalassaemia. Preliminary results were hopeful, but later work raised concerns about toxicity. Dr. Olivieri alleged that Apotex, the company sponsoring the research, made great efforts to prevent her from publishing the results of her research.

While Dr. Olivieri has reached a settlement agreement with all the parties involved and continues her research career, the agreement came about only after a protracted and acrimonious process during which her employment was temporarily terminated more than once.

The current trend is to move away from legally based ethical initiatives in organizations to cultural- or integrity-based initiatives that make ethics a part of core or-

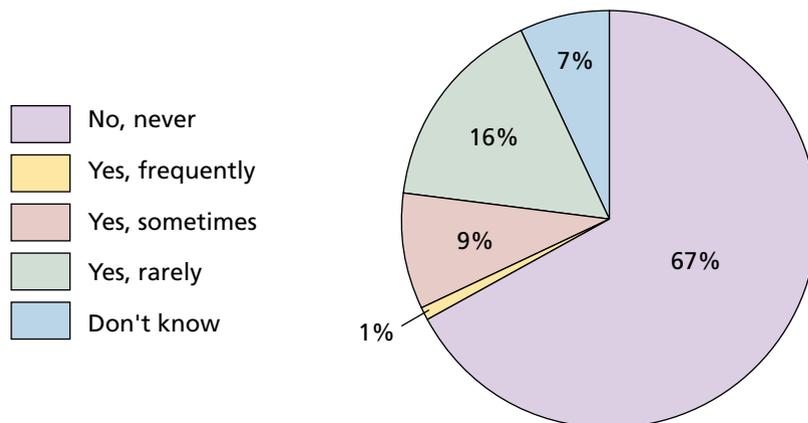
### whistleblowing

the act of an employee exposing an employer's wrongdoing to outsiders, such as the media or government regulatory agencies

**Figure 2.2**

*Percentage of Employees Who Believe that Their Company Encourages Unethical Conduct*

Source: Ethics Resource Center/Society for Human Resource Management, 1997 Business Ethics Survey Report, p. 19.



ganizational values. Organizations recognize that effective business ethics programs are good for business performance. Firms that develop higher levels of trust function more efficiently and effectively and avoid damaged company reputations and product images. Organizational ethics initiatives have been supportive of many positive and diverse organizational objectives, such as profitability, hiring, employee satisfaction, and customer loyalty.<sup>20</sup>

## THE NATURE OF SOCIAL RESPONSIBILITY

There are four dimensions of social responsibility: economic, legal, ethical, and voluntary (including philanthropic) (see Figure 2.3).<sup>21</sup> Earning profits is the economic foundation of the pyramid in Figure 2.3, and complying with the law is the next step. A business whose *sole* objective is to maximize profits is not likely to consider its social responsibility, although its activities will probably be legal. (We looked at ethical responsibilities in the first half of this chapter.) Finally, voluntary responsibilities are additional activities that may not be required but which promote human welfare or goodwill. Legal and economic concerns have long been acknowledged in business, but voluntary and ethical issues are more recent concerns.

A business that is concerned about society as well as earning profits is likely to invest voluntarily in socially responsible activities. For example, some companies, such as Canadian Tire through the Foundation for Families and Honda Motors Canada, support numerous social initiatives. Such businesses win the trust and respect of their employees, customers, and society by implementing socially responsible programs and, in the long run, increase profits. Irresponsible companies risk losing consumers as well as encouraging the public and government to take action to constrict



**Figure 2.3**

*The Pyramid of Social Responsibility*

Source: Adapted from Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders." Reprinted from *Business Horizons* 34 (July/August 1991), p. 42. Copyright © 1991 by the Foundation for the School of Business at Indiana University. Used with permission.

their activities. Reebok has worked diligently to improve the conditions in its factories over the past several years. Reebok has removed organic solvents that pose health risks, improved the air quality in its plants, explored nontoxic alternatives in the manufacturing process, and maintained stricter safety standards than required by the US Occupational Safety and Health Administration (OSHA). Reebok has also increased wages (20 percent over minimum wage), reduced overtime, and eliminated fines for disciplinary problems.<sup>22</sup> All of this has been done to show that Reebok is socially responsible in its world manufacturing of athletic shoes.

In one particular study, 48 percent of the respondents cited business practices as a reason for switching from one business to another; other reasons included treatment of employees, the environment, stability, and community.<sup>23</sup> Most companies today consider being socially responsible a cost of doing business.

Although the concept of social responsibility is receiving more and more attention, it is still not universally accepted. Table 2.3 lists some of the arguments for and against social responsibility.

## SOCIAL RESPONSIBILITY ISSUES

As with ethics, managers consider social responsibility on a daily basis as they deal with real issues. Among the many social issues that managers must consider are their

**Table 2.3**

*The Arguments For and Against Social Responsibility*

<b>For:</b>
1. Business helped to create many of the social problems that exist today, so it should play a significant role in solving them, especially in the areas of pollution reduction and cleanup.
2. Businesses should be more responsible because they have the financial and technical resources to help solve social problems.
3. As members of society, businesses should do their fair share to help others.
4. Socially responsible decision making by businesses can prevent increased government regulation.
5. Social responsibility is necessary to ensure economic survival: If businesses want educated and healthy employees, customers with money to spend, and suppliers with quality goods and services in years to come, they must take steps to help solve the social and environmental problems that exist today.
<b>Against:</b>
1. It sidetracks managers from the primary goal of business—earning profits. Every dollar donated to social causes or otherwise spent on society’s problems is a dollar less for owners and investors.
2. Participation in social programs gives businesses greater power, perhaps at the expense of particular segments of society.
3. Some people question whether business has the expertise needed to assess and make decisions about social problems.
4. Many people believe that social problems are the responsibility of government agencies and officials, who can be held accountable by voters.

firms' relations with employees, government regulators, owners, suppliers, customers, and the community.

Table 2.4 shows companies currently held in a socially responsible stock fund. The criteria for inclusion: quality goods and services, equitable employee and community relations, and care for the environment. A recent survey carried out on behalf of Canadian Business for Social Responsibility found:

- Canadians have high expectations for the financial and investment community to use corporate sustainability reports when making investment decisions.
- Canadian shareholders strongly believe that the investment community should be taking corporate environmental and social performance into account when valuing companies.
- There is strong interest among shareholders to learn more about the corporate social and environmental performance of the companies they currently invest in.
- Very few shareholders believe that their investment portfolio is made up of socially irresponsible companies.
- Over one in five shareholders report having their investment decisions influenced by corporate social performance, and one in five appear to be serious about socially responsible investing.<sup>24</sup>

Social responsibility is a dynamic area with issues changing constantly in response to society's desires. There is much evidence that social responsibility is associated with improved business performance. Consumers are refusing to buy from businesses that receive publicity about misconduct. A number of studies have found a direct relationship between social responsibility and profitability, as well as that social responsibility is linked to employee commitment and customer loyalty—major concerns of any firm trying to increase profits.<sup>25</sup> This section highlights a few of the many social responsibility issues that managers face; as managers become aware of and work toward the solution of current social problems, new ones will certainly emerge.

## Relations with Owners and Shareholders

Businesses must first be responsible to their owners, who are primarily concerned with earning a profit or a return on their investment in a company. In a small business, this responsibility is fairly easy to fulfill because the owner(s) personally manages the business or knows the managers well. In larger businesses, particularly corporations owned by thousands of stockholders, assuring responsibility to the owners becomes a more difficult task.

A business's responsibilities to its owners and investors, as well as to the financial community at large, include maintaining proper accounting procedures, providing all

Toronto-Dominion Bank	BCE Inc.
Royal Bank of Canada	Manulife Financial Corporation
Bank of Montreal	Power Corporation of Canada
Suncor Energy	EnCana Corporation
Bank of Nova Scotia	Thompson Corporation (The)



Ethical Funds Inc.  
[www.ethicalfunds.com/](http://www.ethicalfunds.com/)

**Table 2.4**

*Top Ten Holdings of the Ethical Canadian Equity Fund*

Source: [www.ethicalfunds.com](http://www.ethicalfunds.com)

relevant information to investors about the current and projected performance of the firm, and protecting the owners' rights and investments. In short, the business must maximize the owners' investment in the firm. The unethical behaviour of senior management resulted in legal proceedings against Bre-X in gold mining and Livent in the entertainment business and contributed to the demise of both businesses.

## Employee Relations

Another issue of importance to a business is its responsibilities to employees, for without employees a business cannot carry out its goals. Employees expect businesses to provide a safe workplace, pay them adequately for their work, and tell them what is happening in their company. They want employers to listen to their grievances and treat them fairly.

Each of the ten provinces, three territories, and the federal government has its own Occupational Health and Safety Regulations enacted to protect workers. Labour unions have also made significant contributions to achieving safety in the workplace and improving wages and benefits. Most organizations now recognize that the safety and satisfaction of their employees are critical ingredients in their success, and many strive to go beyond what is expected of them by the law. Healthy, satisfied employees supply more than just labour to their employers, however. Employers are beginning to realize the importance of obtaining input from even the lowest-level employees to help the company reach its objectives.

A major social responsibility for business is providing equal opportunities for all employees regardless of their sex, age, race, religion, or nationality. Women and minorities have been slighted in the past in terms of education, employment, and advancement opportunities; additionally, many of their needs have not been addressed by business. For example, women, who continue to bear most child-rearing responsibilities, often experience conflict between those responsibilities and their duties as employees. Consequently, day care has become a major employment issue for women, and more companies are providing day-care facilities as part of their effort to recruit and advance women in the work force. In addition, companies are considering alternative scheduling such as flex-time and job sharing to accommodate employee concerns. Telecommuting has grown significantly over the past 5 to 10 years, as well. Many Canadians and Americans today believe business has a social obligation to provide special opportunities for women and minorities to improve their standing in society.

## Consumer Relations

A critical issue in business today is business's responsibility to customers, who look to business to provide them with satisfying, safe products and to respect their rights as consumers. The activities that independent individuals, groups, and organizations undertake to protect their rights as consumers are known as **consumerism**. To achieve their objectives, consumers and their advocates write letters to companies, lobby government agencies, make public service announcements, and boycott companies whose activities they deem irresponsible. Some consumers have aggressively boycotted Home Depot for selling "old growth" ancient redwoods and other old-forest products. As the largest home improvement retailer, Home Depot is also the largest reseller of such products, even though it manufactures none of the products it sells in its stores.<sup>26</sup> Other companies, such as 3M and Mitsubishi, have stringent policies on the purchase of such materials.

### consumerism

the activities that independent individuals, groups, and organizations undertake to protect their rights as consumers

In July 1996, Sunbeam hired Albert Dunlap (known as “Chainsaw Al”) as chairman and CEO to try to save the company and increase declining stock values and profits. Dunlap is known for making extreme cuts in all areas of operations, including massive layoffs, to streamline business. The concepts of teamwork and group dynamics are unknown to Dunlap. He even authored a book, *Mean Business*, that states that making money for shareholders is the most important goal of any business. Increasing shareholder wealth, at any cost, is his objective. Clearly, his philosophy is deficient in regard to ethical responsibility.

The day Dunlap was hired, Sunbeam’s stock jumped 49 percent. True to his reputation, “Chainsaw Al” fired thousands of employees, shut down factories and warehouses, and streamlined the company by eliminating products and selling businesses unrelated to its core products. He even attained his objective and made money for shareholders. However, the wealth did not last. In April 1998, Sunbeam announced a first-quarter loss, and stock prices fell by 25 percent.

Dunlap realized his reputation and “Rambo”-style cuts were not going to maintain the high stock prices or profits at Sunbeam. His solution was to shift sales from future quarters to the current one by using a “bill and hold” strategy, which involves selling products to retailers for large discounts and holding them in third-party warehouses to be delivered at a later date. By booking sales months prior to the ac-

tual shipment or billing, Sunbeam was able to report higher revenues in the form of accounts receivable. The strategy helped Dunlap boost Sunbeam’s revenues by 18 percent in 1997.

Although what Dunlap had done was not illegal, shareholders filed lawsuits alleging that the company made misleading statements about its finances and deceived them so that they would purchase Sunbeam’s artificially inflated stock. In 1998, second-quarter sales were considerably below Dunlap’s forecasted increase and, in fact, the company was in crisis with projections of a US\$60 million loss for the quarter. On June 13, 1998, Sunbeam’s board of directors unanimously agreed that their confidence in Dunlap was lost. Dunlap was told that same day via a one-minute conference call that he was the next person to be cut from Sunbeam’s payroll.

Sunbeam is again facing the need to revitalize its organization, but this time the challenges have a different focus. Along with the shareholder lawsuits, Sunbeam is in litigation with the American Medical Association, and the US Securities and Exchange Commission is scrutinizing Sunbeam’s accounting practices. Also, Sunbeam’s Audit Committee has determined that it will be required to restate its audited financial statements for the first quarter of 1998, 1997, and possibly 1996. Jerry W. Levin, Dunlap’s replacement, now must outline a strategy to revitalize the company and restore investor confidence.<sup>27</sup>

## Consider Ethics and Social Responsibility

### “Chainsaw Al’s” Mean Business at Sunbeam



Many of the desires of those involved in the consumer movement have a foundation in US president John F. Kennedy’s 1962 consumer bill of rights, which highlighted four rights. The *right to safety* means that a business must not knowingly sell anything that could result in personal injury or harm to consumers. Defective or dangerous products erode public confidence in the ability of business to serve society. They also result in expensive litigation that ultimately increases the cost of products for all consumers. The *right to be informed* gives consumers the freedom to review complete information about a product before they buy. This means that detailed in-

formation about ingredients, risks, and instructions for use are to be printed on labels and packages. The *right to choose* ensures that consumers have access to a variety of products and services at competitive prices. The assurance of both satisfactory quality and service at a fair price is also a part of the consumer's right to choose. The *right to be heard* assures consumers that their interests will receive full and sympathetic consideration when the government formulates policy. It also assures the fair treatment of consumers who voice complaints about a purchased product.

Some countries have adopted these rights as government policy while others, like Canada, use them informally as a framework to develop policy.

## Environmental Issues

Environmental responsibility has become a leading issue in the last decade as both business and the public acknowledge the damage done to the environment in the past. Today's consumers are increasingly demanding that businesses take a greater responsibility for their actions and their impact on the environment.

**Animal Rights.** One area of environmental concern in society today is animal rights. Probably the most controversial business practice in this area is the testing of cosmetics and drugs on animals who may be injured or killed as a result. Animal-rights activists, such as People for the Ethical Treatment of Animals, say such research is morally wrong because it harms living creatures. Consumers who share this sentiment may boycott companies that test products on animals and take their business instead to companies such as The Body Shop and John Paul Mitchell Systems, which do not use animal testing. However, researchers in the cosmetics and pharmaceutical industries argue that animal testing is necessary to prevent harm to human beings who will eventually use the products.

Business practices that harm endangered wildlife and their habitats are another environmental issue. The use of fur for luxury coats has been controversial for many years. In Canada, the Hudson's Bay Company sold their Northern stores and fur auction business in 1985, 313 years after their first public fur auction. In New York, the Animal Defense League (ADL) has protested Macy's sale of fur coats. The ADL claims that more than 40 million animals are killed each year for their fur.<sup>28</sup>

**Pollution.** Another major issue in the area of environmental responsibility is pollution. According to Laura Jones, an economist from British Columbia, Atlantic fisheries can avoid further ecological and economic disasters by switching to a "property rights" style of management.

Ms. Jones points out that the switch to "property rights"-based management resulted in the recovery of the BC Halibut fishery which was on the edge of collapse in the 1990s, and turned it into the thriving, viable fishery it had become by 2003.

"Property rights"-based management is a system of individual transferable quotas in contrast to the current "efforts-based" system of ever shorter seasons and equipment restrictions which is employed in the Atlantic fisheries in an effort to control the fishermen's success at catching fish.

Ms. Jones cites the BC experience as showing that this type of management improves conservation efforts, economic viability, and health and safety records. Under this system, fishermen own the quota and as a business asset they desire to protect its value. The result is that people in the BC industry say they now think of themselves as "custodians" of the fishery, not simply "miners" of the sea.<sup>29</sup> It is argued by resource economists that such property rights and the resulting "custodial" approach encourage protection of the environment as pollution impacts the value of that which is owned.



People for the Ethical  
Treatment of Animals  
[www.peta-online.org/](http://www.peta-online.org/)

Water pollution results from dumping toxic chemicals and raw sewage into rivers and oceans, oil spills, and the burial of industrial waste in the ground where it may filter into underground water supplies. Fertilizers and insecticides used in farming and grounds maintenance also run off into water supplies with each rainfall. Water pollution problems are especially notable in heavily industrialized areas.

In May of 2000 the water supply of Walkerton, Ontario, was contaminated with *E. coli* bacteria. The result was the death of seven people and 2,300 were made ill. The suspected cause of the contamination was untreated manure from a dairy farm being carried into a municipal well by spring runoff. It should be noted that a judicial inquiry held that no regulations were broken by the farmer. As a result of such occurrences, society is demanding that regulations be enacted and enforced to safeguard clean, healthful water supplies. The inquiry resulted in 93 recommendations of which 50 were included in the Ontario Safe Drinking Water Act of 2002.<sup>30</sup>

Air pollution is usually the result of smoke and other pollutants emitted by manufacturing facilities, as well as carbon monoxide and hydrocarbons emitted by motor vehicles. In addition to the health risks posed by air pollution, when some chemical compounds emitted by manufacturing facilities react with air and rain, acid rain results. Acid rain has contributed to the deaths of many valuable forests and lakes in North America as well as in Europe. Air pollution may also contribute to the so-called greenhouse effect, in which carbon dioxide collects in the earth's atmosphere, trapping the sun's heat and preventing the earth's surface from cooling. Chlorofluorocarbons also harm the earth's ozone layer, which filters out the sun's harmful ultraviolet light; this too may be a cause of the greenhouse effect. The greenhouse effect is highly controversial, however, and some scientists doubt its existence. Royal Dutch/Shell Group, parent company of Shell Oil, plans to cut greenhouse gas emissions by 10 percent over the next three years. Shell plans to spend US\$500 million over the next five years to develop renewable energy sources such as solar and wind power.<sup>31</sup>

Land pollution is tied directly to water pollution because many of the chemicals and toxic wastes that are dumped on the land eventually work their way into the water supply. Land pollution results from the dumping of residential and industrial waste, strip mining, forest fires, and poor forest conservation. Manufacturers in the United States produce approximately 45 million tonnes of contaminants each year. The dumping of toxic wastes in Love Canal (near Niagara Falls, New York) caused later residents to experience high rates of birth defects and cancer before they were forced by the US government to abandon their homes in the late 1970s and early 1980s. In Brazil and other South American countries, rain forests are being destroyed—at a rate of nearly half a hectare per minute—to make way for farms and ranches, at a cost of the extinction of the many animals and plants (some endangered species) that call the rain forest home. Large-scale deforestation also depletes the oxygen supply available to humans and other animals.

In Sydney, Nova Scotia, 80 years of coke-oven operation in the area known as Muggah Creek have left ground and surface water seriously contaminated with arsenic, lead, and other toxins. It has left an accumulation, in an area the size of three city blocks now called the “Tar Ponds,” of some 70,000 tonnes of chemical waste and raw sewage, 40,000 tonnes of which are carcinogenic PCBs. Residents of the area reported that an orange goo would seep into their basements and that puddles would turn fluorescent green after a rainfall. They have also complained of numerous health problems, including massive headaches, nosebleeds, and respiratory problems. Today the area has one of the highest rates of cancer, birth defects, and miscarriages in Canada.

Efforts at cleaning up the Sydney Tar Ponds were initiated with \$34.4 million in government funding in 1986. After 15 years, the problem remains unsolved,

as 13 million litres of untreated waste continues to enter the site daily, and bio-remediation efforts are expected to take centuries to rehabilitate the area. In May 2003 Sydney residents chose two of the most expensive technologies from a list of six options provided by the government. The choices included washing the soil and burning it to produce energy for a combined seven year total cost of up to \$450 million. A study by Health Canada released in the spring of 2003 concludes that the closer you live to the Tar Ponds the greater the health risk.<sup>32</sup>

Related to the problem of land pollution is the larger issue of how to dispose of waste in an environmentally responsible manner. Consumers contribute approximately 680 kilograms of garbage per person each year to landfills. Compounding the waste-disposal problem is the fact that more than 50 percent of all garbage is made out of plastic, which does not decompose. Some communities have passed laws that prohibit the use of plastics such as Styrofoam for this reason.

**Response to Environmental Issues.** Partly in response to federal legislation such as the Canadian Environmental Protection Act and partly due to consumer concerns, businesses are responding to environmental issues. Many small and large companies, including Walt Disney Company, Chevron, and Scott Paper, have created a new executive position—a vice president of environmental affairs—to help them achieve their business goals in an environmentally responsible manner.

Many firms are trying to eliminate wasteful practices, the emission of pollutants, and/or the use of harmful chemicals from their manufacturing processes. Other companies are seeking ways to improve their products. Auto makers, such as General Motors and Honda, are developing automobiles that run on alternative fuels—electricity, solar power, natural gas, and methanol. In Europe, where by 2005 every car part has to be capable of being completely recycled, Mercedes-Benz was starting to introduce hemp into its interiors in the mid-1990s. In Ontario, Geoff Kline is shipping all the hemp he can grow to suppliers who then sell it to the automotive industry. Mr. Kline points out that the car manufacturers are not promoting its use because the primary motivation is cost rather than public relations. With excellent mechanical characteristics at approximately half the cost of glass fibre, hemp's environmental benefit of increased recycling potential is an added bonus for cost-conscious manufacturers.<sup>33</sup> Many businesses have turned to *recycling*, the reprocessing of materials—aluminum, paper, glass, and some plastic—for re-use. Procter & Gamble uses recycled materials in some of its packaging and markets refills for some of its products, which creates less packaging waste. In the United States, roughly 40 percent of paper and paperboard, 36.5 percent of iron and steel, and 34.5 percent of aluminum is recycled out of roughly 190 tonnes of trash created each year.<sup>34</sup> Such efforts to make products, packaging, and processes more environmentally friendly have been labelled “green” business or marketing by the public and media.

It is important to recognize that, with current technology, environmental responsibility requires trade-offs. Society must weigh the huge costs of limiting or eliminating pollution against the health threat posed by the pollution. Environmental responsibility imposes costs on both business and the public. Although people certainly do not want oil fouling beautiful waterways and killing wildlife, they insist on low-cost, readily available gasoline and heating oil. People do not want to contribute to the growing garbage-disposal problem, but they often refuse to pay more for “green” products packaged in an environmentally friendly manner, to recycle as much of their own waste as possible, or to permit the building of additional waste-disposal facilities (the “not in my backyard” or NIMBY syndrome). Thus, managers must coordinate environmental goals with other social and economic ones.

2004

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## Community Relations

A final, yet very significant, issue for businesses concerns their responsibilities to the general welfare of the communities and societies in which they operate. Many businesses simply want to make their communities better places for everyone to live and work. Although such efforts cover many diverse areas, some actions are especially noteworthy. As one example, the RBC Financial Group donated \$37 million to charities in 2003, almost half of which went to education and health worldwide. In 2002, a similar amount was donated with \$27.4 million donated in Canada and \$9.7 million donated internationally. RBC is the largest corporate supporter of the United Way in Canada with corporate donations of \$2.7 million and employee donations of about \$5.75 million. In addition to cash donations, RBC lends employees to the United Way each year. In 2002, 18 RBC employees were on loan to the United Way.<sup>35</sup>

The smaller TD Bank Financial Group is no less committed to community support with \$20 million donated to charities, \$4.17 million gifts-in-kind donations, \$2 million in charitable sponsorships, and support for numerous scholarship and literacy projects including the donation of 450,000 books to children and \$1.34 million set aside for use in scholarships and bursaries.<sup>36</sup>

Both banks proudly point out that their employees, with corporate support, devote tens of thousands of hours to volunteer work.

Suncor Energy follows a policy of donating 1 percent of pretax profits to charitable efforts, predominantly through its Suncor Energy Foundation. In 2002, the foundation disbursed \$4.4 million to 265 Canadian charitable organizations bringing its total donations since 1998 to almost \$15 million. In 2002, about one-third of the Foundation's giving was directed toward educational projects.<sup>37</sup>

Table 2.5

*Corporate Philanthropy by Area of Support*

Source: Based on 1997 Corporate Community Investment in Canada, conducted by the Canadian Centre for Business in the Community, as reported in Taking Action on Trends in Corporate Social Responsibility, at [www2.conferenceboard.ca/cbc/knowledge-areas/csr/csroct98.htm](http://www2.conferenceboard.ca/cbc/knowledge-areas/csr/csroct98.htm).

Education	26%	Civic causes	8%
Social services	23%	Environment	4%
Health	22%	Sports	1%
Arts & culture	11%	Other	4%

Home Depot excels at strategic philanthropy. It has a close relationship with Habitat for Humanity, donating products and employee time to assist in the organization's building efforts. Minute Maid Company, a division of Coca-Cola, produces 2,000 cases of Hi-C drink for Second Harvest, a charitable hunger relief organization.<sup>38</sup>

Average contributions by Canadian corporations grew by 20 percent from 1995 to 1997. The largest proportion of these contributions was received by education, followed by social services and health care. Table 2.5 shows the complete breakdown of support by area.

That education is viewed as important by corporate Canada is evidenced by the fact that in 2000 over 15,000 Canadian organizations applied for Conference Board of Canada Awards for:

- business education partnerships;
- youth employment;
- workplace literacy/business skills upgrading; and
- corporate leadership.

The winning projects benefit both the organization investing in education and the community. By developing employability skills, entrepreneurship, and literacy, a more productive work force is created. This results in higher productivity and greater economic welfare for all Canadians. Many of the winners of these awards are ranked among Canada's most productive companies.<sup>39</sup>

Business is also beginning to take more responsibility for the hard-core unemployed. Some are mentally or physically handicapped; some are homeless. Others are members of traditionally disadvantaged social or racial groups.

Over 20,000 North American Indians, Metis, and Inuit in Canada operate their own businesses. While the majority are profitable, they lag behind the Canadian average. The corporate members of the Council on Corporate-Aboriginal Relations established by the Conference Board of Canada work with Aboriginal businesses to improve capacity, management skills, and technical training, and to provide greater opportunity for expansion. This is accomplished through mentoring programs such as that provided by Syncrude Canada. Syncrude executives have built successful relationships by communicating their business requirements to Aboriginal firms and by making their executives available as business mentors, providing management expertise and training.<sup>40</sup>

To promote ethics and social responsibility around the globe, the Caux Round Table, a group of business, political, and civic leaders in Europe, Japan, and the United States, created international principles related to responsible corporate citizenship. The role of business in the lives of customers, employees, owners, competitors, suppliers, and communities was communicated in clear terms. International codes allow businesses to confidently adjust their practices to accommodate cultural, social, and ethical differences in international business.



## Review Your Understanding

### ***Define business ethics and examine its importance.***

Business ethics refers to principles and standards that define acceptable business conduct. Acceptable business behaviour is defined by customers, competitors, government regulators, interest groups, the public, and each individual's personal moral principles and values. Ethics is important in business because it builds trust and confidence in business relationships. Unethical actions may result in negative publicity, declining sales, and even legal action.

### ***Detect some of the ethical issues that may arise in business.***

An ethical issue is an identifiable problem, situation, or opportunity requiring a person or organization to choose from among several actions that must be evaluated as right or wrong. Ethical issues can be categorized in the context of their relation with conflicts of interest, fairness and honesty, communications, and business associations.

### ***Specify how businesses can promote ethical behaviour by employees.***

Businesses can promote ethical behaviour by employees by limiting their opportunity to engage in misconduct. Formal codes of ethics, ethical policies, and ethics training programs reduce the incidence of unethical behaviour by informing employees what is expected of them and providing punishments for those who fail to comply.

### ***Define social responsibility and explain its relevance to business.***

Social responsibility is the obligation an organization assumes to maximize its positive impact and

minimize its negative impact on society. Socially responsible businesses win the trust and respect of their employees, customers, and society and, in the long run, increase profits.

### ***Debate an organization's social responsibilities to owners, employees, consumers, the environment, and the community.***

Businesses must maintain proper accounting procedures, provide all relevant information about the performance of the firm to investors, and protect the owners' rights and investments. In relations with employees, businesses are expected to provide a safe workplace, pay employees adequately for their work, and treat them fairly. Consumerism refers to the activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers. Increasingly, society expects business to take greater responsibility for the environment (especially with regard to animal rights), which includes water, air, land, and noise pollution. Many businesses engage in activities to make the communities in which they operate better places for everyone to live and work.

### ***Evaluate the ethics of a business's decision.***

The "Solve the Dilemma" box presents an ethical dilemma at Checkers Pizza. Using the material presented in this chapter, you should be able to analyze the ethical issues present in the dilemma, evaluate Barnard's plan, and develop a course of action for the firm.

## Learn the Terms

bribes 35

business ethics 30

codes of ethics 39

consumerism 44

ethical issue 32

plagiarism 37

whistleblowing 40

## Check Your Progress

1. Define business ethics. Who determines whether a business activity is ethical? Is unethical conduct always illegal? What factors influence business ethics?
2. Distinguish between ethics and social responsibility.
3. Why has ethics become so important in business?
4. What is an ethical issue? What are some of the ethical issues named in your text? Why are they ethical issues?
5. What is a code of ethics? How can one reduce unethical behaviour in business?
6. List and discuss the arguments for and against social responsibility by business (Table 2.3). Can you think of any additional arguments (for or against)?
7. What responsibilities does a business have toward its employees?
8. What responsibilities do businesses have with regard to the environment? What steps have been taken by some responsible businesses to minimize the negative impact of their activities on the environment?
9. What are a business's responsibilities toward the community in which it operates?

## Get Involved

1. Discuss some recent examples of businesses engaging in unethical practices. Classify these practices as issues of conflict of interest, fairness and honesty, communications, or business relationships. Why do you think the businesses chose to behave unethically? What actions might the businesses have taken?
2. Discuss with your class some possible methods of improving ethical standards in business. Do you think that business should regulate its own activities or that the federal government should establish and enforce ethical standards? How do you think businesspeople feel?
3. Find some examples of socially responsible businesses in newspapers or business journals. Explain why you believe their actions are socially responsible. Why do you think the companies chose to act as they did?

## Build Your Skills

### Making Decisions about Ethical Issues

**Background:** The fictional merger of Laurent Inc. and Western Ltd. created Western Laurent, the number-one company in the farming industry.

You and the rest of the class are managers at Western Laurent Corporation, Winnipeg, Manitoba. You are getting ready to do the group exercise in an ethics training session. The training instructor announces you will be playing *Gray Matters: The Ethics Game*. You are told that *Gray Matters*, which was prepared for your company's employees, is also played at 41 universities and at 65 other companies. Although there are 55 scenarios in *Gray Matters*, you will have time during this session to complete only the four scenarios that your group draws from the stack of cards.<sup>41</sup>

**Task:** Form into groups of four to six managers and appoint a group leader who will lead a discussion of

the case, obtain a consensus answer to the case, and be the one to report the group's answers to the instructor. You will have five minutes to reach each decision, after which time, the instructor will give the point values and rationale for each choice. Then you will have five minutes for the next case, etc., until all four cases have been completed. Keep track of your group's score for each case; the winning team will be the group scoring the most points.

Since this game is designed to reflect life, you may believe that some cases lack clarity or that some of your choices are not as precise as you would have liked. Also, some cases have only one solution, while others have more than one solution. Each choice is assigned points to reflect which answer is the most correct. **Your group's task is to select only one option in each case.**

Your group draws cards 4, 7, 36, and 40.

4

**Mini-Case**

For several months now, one of your colleagues has been slacking off, and you are getting stuck doing the work. You think it is unfair. What do you do?

**Potential Answers**

- A. Recognize this as an opportunity for you to demonstrate how capable you are.
- B. Go to your supervisor and complain about this unfair workload.
- C. Discuss the problem with your colleague in an attempt to solve the problem without involving others.
- D. Discuss the problem with the human resources department.

7

**Mini-Case**

You are aware that a fellow employee uses drugs on the job. Another friend encourages you to confront the person instead of informing the supervisor. What do you do?

**Potential Answers**

- A. You speak to the alleged user and encourage him to get help.
- B. You elect to tell your supervisor that you suspect an employee is using drugs on the job.
- C. You confront the alleged user and tell him either to quit using drugs or you will “turn him in.”
- D. Report the matter to employee assistance.

36

**Mini-Case**

You work for a company that has implemented a policy of a smoke-free environment. You discover employees smoking in the restrooms of the building. You also smoke and don't like having to go outside to do it. What do you do?

**Potential Answers**

- A. You ignore the situation.
- B. You confront the employees and ask them to stop.
- C. You join them, but only occasionally.
- D. You contact your ethics or human resources representative and ask him or her to handle the situation.

40

**Mini-Case**

Your coworker is copying company-purchased software and taking it home. You know a certain program costs \$400, and you have been saving for a while to buy it. What do you do?

**Potential Answers**

- A. You figure you can copy it too since nothing has ever happened to your coworker.
- B. You tell your coworker he can't legally do this.
- C. You report the matter to the ethics office.
- D. You mention this to your supervisor.

## Searching the Online World

1. Obtain from the web site [www.sedar.com](http://www.sedar.com) the most recent annual report for any public company of interest to you. Using this material and any other information source you wish, prepare a short, concise report on the company's disclosures regarding corporate environmental or social responsibility. Evaluate both the disclosure (is it appropriate and informative?) and the actions of the company in these areas.



## Wake Up and Smell the Coffee

Every day Canadians consume over 3.5 million cups of coffee. Many people couldn't imagine starting the day without it. Canadians can be found drinking coffee at home, at work, and while they commute. For many, the coffee shop fulfills an important social need as we meet friends and acquaintances for conversation over coffee. So pervasive is our thirst for coffee, cup holders have even featured prominently as a sales point in the advertisements for new cars. Coffee consumption is a part of our culture.

Worldwide coffee represents a US\$55 billion a year industry, employing 25 million people. Of those employed in the industry, over 20 million are small farmers, typically producing less than 1,500 kilograms of beans per year on one- to two-hectare properties. These growers, who struggle to survive on incomes averaging less than US\$1.00 per day, receive less than 10 percent of the retail value of their product.

The low prices, lower now than during the 1930s Depression, are only part of what many perceive as the unfair treatment of these farmers. As with many North American farmers, their income is received only after harvest; therefore, they must often borrow to acquire inputs such as fertilizer. For the small producers in the less developed economies, the only source of credit is often the intermediary who purchases their crop, and interests rates are often as high as 20 percent per annum. Such costs further reduce the incomes of these poorest members of society, who face the prospect of losing their land if they default on the loans.

One group attempting to improve the situation for the small growers of coffee and other commodities such as tea, cocoa, and sugar is TransFair Canada (TFC), the Canadian affiliate of Fairtrade Labeling Organization (FLO). Through its procedures, TransFair ensures that coffee bearing its Fair Trade certification has met the requirements of the FLO. Fair Trade-certified coffee is purchased from over 300 cooperatives representing 550,000 small growers. The cooperative receives a minimum of US\$1.26 per pound, more than double the current world price of less than US\$0.60 per pound. A premium is paid if the beans are certified as organically grown. Since the members of the cooperatives are small growers who follow traditional methods of growing coffee, few

chemical inputs are used. The price of chemical fertilizers is also prohibitive. Therefore, almost 40 percent of the cooperatives on the FLO register were either certified organic or in the process of becoming certified as of February 2001.

Only about 22 percent of the 78.7 million kilograms of coffee produced by the FLO-registered cooperatives in 1999 was sold through Fair Trade. However, the small growers also benefit from the direct access to world markets that the cooperatives provide. This marginal increase in income when combined with the more profitable Fair Trade sales has a disproportionate economic impact on the growers. The cooperative also lowers production costs by recycling wastes into low-cost organic fertilizers, which in turn produces higher incomes for the growers and at the same time improves environmental stewardship.

Higher incomes allow the small growers to reinvest in their farms, to provide better nutrition and housing for their families, and through cooperative-funded schools, to provide more educational opportunities for their children.

These benefits accrue even though Fair Trade-certified sales in Canada, as in other countries, represent only a small but growing proportion of the total coffee market.

### Questions

1. Is it the responsibility of coffee consumers to ensure that the small producers receive a fair price for their product? Why or why not?
2. If the price paid to the grower represents only 10 percent of the retail price of coffee, why is the retail price of Fair Trade coffee approximately double the regular price?
3. Who benefits the most from the higher price paid by consumers for Fair Trade labelled coffee?
4. What alternative approach to the problem of poverty among small producers can you suggest?

Source: *Marketplace*, show number 612-2185-9077, "Coffee," February 15, 2000, running time 13:36.



