business ethics
principles and standards that determine acceptable conduct in business

social responsibility
a business's obligation to maximize its positive impact and minimize its negative impact on society

LO 2-1 Define business ethics and social responsibility and examine their importance.

BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

In this chapter, we define **business ethics** as the principles and standards that determine acceptable conduct in business organizations. Personal ethics, on the other hand, relates to an individual's values, principles, and standards of conduct. The acceptability of behavior in business is determined by not only the organization but also stakeholders such as customers, competitors, government regulators, interest groups, and the public as well as each individual's personal principles and values. The publicity and debate surrounding highly visible legal and ethical issues at a number of well-known firms, including Diamond Foods, Bank of America, and Citigroup, highlight the need for businesses to integrate ethics and responsibility into all business decisions. The most recent global financial crisis took a toll on consumer trust of financial services companies. Words used to describe these companies in a survey were "greedy," "impersonal," "opportunistic," and "distant." Most unethical activities within organizations are supported by an organizational culture that encourages employees to bend the rules. On the other hand, trust in business is the glue that holds relationships together. Texas Instruments, for example, has been recognized for its high integrity and strong ethical culture. In Figure 2.1, you can see that trust in banks is lower than in other industries.

Organizations that exhibit a high ethical culture encourage employees to act with integrity and adhere to business values.

SUSTAINABLE HARVEST RELATIONSHIP COFFEE

Sustainable Harvest imports specialty-grade coffee from 15 countries. The organization invests in training and development opportunities in the coffee communities from which it sources.

Many experts agree that ethical leadership, ethical values, and compliance are important in creating good business ethics. To truly create an ethical culture, however, managers must show a strong commitment to ethics and compliance. This "tone at the top" requires top managers to acknowledge their own role in supporting ethics and compliance, create strong relationships with the general counsel and the ethics and compliance department, clearly communicate company expectations for ethical behavior to all employees, educate all managers and supervisors in the business about the company's ethics policies, and train managers and employees on what to do if an ethics crisis occurs.[1]

Many consumers and social advocates believe that businesses should not only make a profit but also consider the social implications of their activities. Sustainable Harvest is an example of a leader in the social enterprise sector. 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

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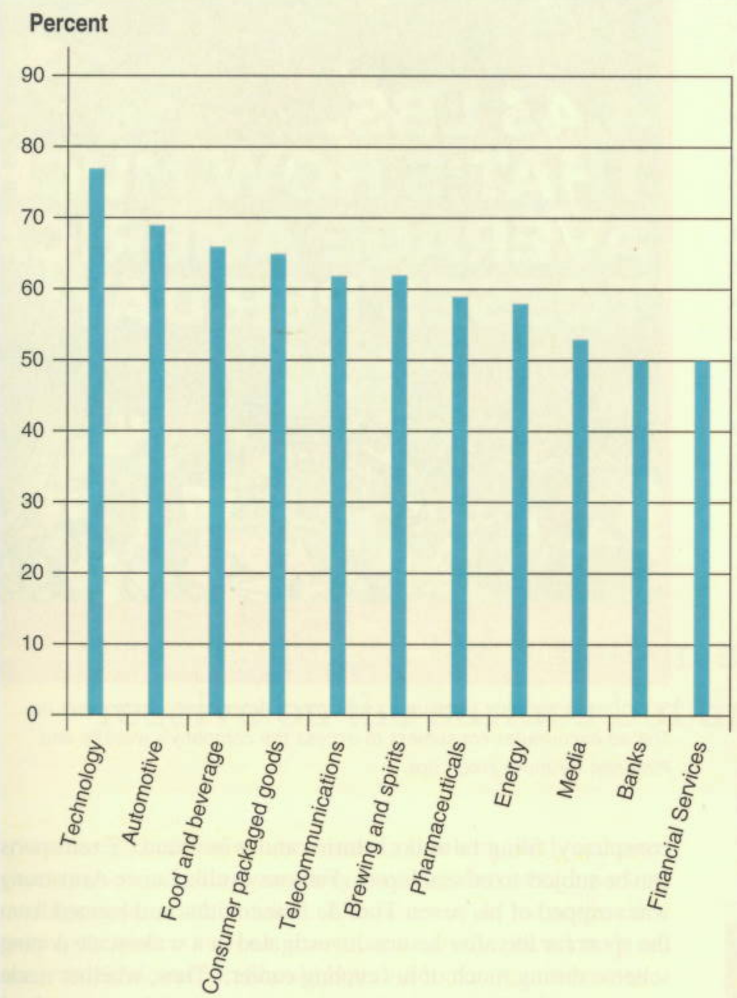
VIRTUAL FARM BEARS RESPONSIBLE FRUIT

Zynga.org proves that companies can be both profitable and socially responsible. Zynga.org is the philanthropic arm of Zynga, a company known for its popular online video games such as FarmVille and Words With Friends. It is run by Laura Pincus Hartman, sister to Zynga founder Mark Pincus. Hartman's mission is to show that for-profit businesses can positively contribute to social change while maintaining their economic responsibilities. Zynga raises money by offering gamers a limited-edition virtual product, such as never-wilting sweet potatoes. The proceeds from these products are donated to organizations such as Habitat for Humanity to help alleviate poverty and improve infrastructure in developing countries. Although Zynga.org does not directly contribute to Zynga's bottom line, its philanthropic activities enhance the firm's reputation. By encouraging people to buy limited-edition virtual products for charity, Zynga.org also spreads awareness of the Zynga name and virtual products. Zynga has been able to link its philanthropic activities to its brand, demonstrating a prime example of how companies can integrate social responsibility into their business strategies.[2]

FIGURE 2.1
Global Trust in Industry Sectors



Source: Edelman, *Global Deck: 2013 Trust Barometer*, www.edelman.com/trust-downloads/global-results-2/.

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 overcharging the government for Medicare 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. It would appear that such concern is warranted. In one takedown, the Medicare Fraud Strike Task Force charged 107 individuals with fraud amounting to $452 million in false billing statements.[3]

On the other hand, misconduct does not necessarily have to spell doom for an organization. Hospital Corporation of America was one major health care organization accused of health care fraud more than a decade ago. However, the company worked hard to institute an ethics program that would completely change its ethical culture. The turnaround was so successful that it has been nominated as one of the world's most ethical companies. Hospital Corporation of America demonstrates how a company can learn from its mistakes and grow as an ethical firm.

The most basic ethical and social responsibility concerns have been codified by laws and regulations that encourage businesses to conform to society's standards, values, and attitudes. For example, after accounting scandals at a number of well-known firms in the early 2000s shook public confidence in the integrity of corporate America, the reputations of every U.S. company suffered regardless of their association with the scandals.[4] To help restore confidence in corporations and markets, Congress passed the Sarbanes-Oxley Act, which criminalized securities fraud and stiffened penalties for corporate fraud. After the financial crisis occurred in the most recent recession, the Dodd-Frank Act was passed to reform the financial industry and offer consumers protection against complex and/or deceptive financial products. At a minimum, managers are expected to obey all 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 (see Table 2.1). 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 knew 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. In this chapter, we explore ethics and social responsibility; the Appendix addresses business law, including the Sarbanes-Oxley Act and the Dodd-Frank Act.

TABLE 2.1 A Timeline of Ethical and Socially Responsible Activities

1960s	1970s	1980s	1990s	2000s
• Social issues • Consumer Bill of Rights • Disadvantaged consumer • Environmental issues • Product safety	• Business ethics • Social responsibility • Diversity • Bribery • Discrimination • Identifying ethical issues	• Standards for ethical conduct • Financial misconduct • Self-regulation • Codes of conduct • Ethics training	• Corporate ethics programs • Regulation to support business ethics • Health issues • Safe working conditions • Detecting misconduct	• Transparency in financial markets • Corporate misconduct • Intellectual property • Regulation of accounting and finance • Executive compensation

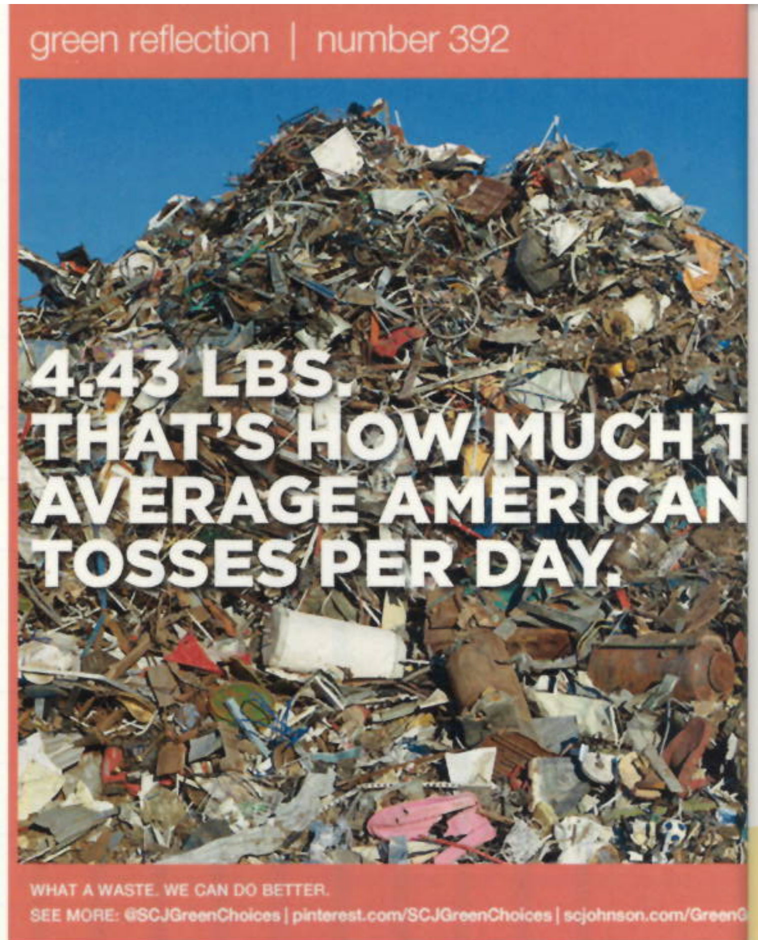
ethical issue an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical

THE ROLE OF ETHICS IN BUSINESS

You have only to pick up *The Wall Street Journal* or *USA Today* to see examples of the growing concern about legal and ethical issues in business. For example, Wells Fargo & Company paid $85 million after it was accused of encouraging borrowers to take out subprime mortgage loans even when many were eligible for regular loans. Subprime mortgage borrowers are generally riskier and therefore pay higher interest rates. However, because subprime mortgages result in higher rates to the company, Wells Fargo allegedly gave individuals who qualified for lower rates subprime mortgages, a practice deemed to be highly unethical and deceptive.[5] Many of the largest banks have had to pay fines related to subprime loans and foreclosures. Regardless of what an individual believes about a particular action, if society judges it to be unethical or wrong, whether correctly or not, that judgment directly affects the organization's ability to achieve its business goals.[6]

Well-publicized incidents of unethical and illegal activity—ranging from accounting fraud to using the Internet to steal another person's credit card number, from deceptive advertising of food and diet products to unfair competitive practices in the computer software industry—strengthen the public's perceptions that ethical standards and the level of trust in business need to be raised. Often, ethical conflicts evolve into legal disputes when cooperative conflict resolution cannot be accomplished. Headline-grabbing scandals like those associated with executive compensation and benefits packages create ethical concerns. Consumer outrage over executive compensation is prompting companies to begin reevaluating how they compensate their CEOs relative to corporate performance. JPMorgan cut CEO James Dimon's pay by 50 percent for 2012 after a high-risk trading scandal cost the firm more than $6.2 billion in trading losses.[7] However, 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 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 that 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.

Ethical issues are not limited to for-profit organizations either. Ethical issues include all areas of organizational activities, including government. In government, several politicians and some high-ranking officials have faced disciplinary actions over ethical indiscretions. Ex-New Orleans mayor Ray Nagin was indicted on charges that included money laundering, bribery, conspiracy, filing false tax returns, and wire fraud.[8] Even sports can be subject to ethical lapses. Famous cyclist Lance Armstrong was stripped of his seven Tour de France titles and banned from the sport for life after he was investigated in a wide-scale doping scheme during much of his cycling career.[9] Thus, whether made in science, politics, sports, or business, most decisions are judged as right or wrong, ethical or unethical. Negative judgments can affect an organization's ability to build relationships with customers and suppliers, attract investors, and retain employees.[10]



SC Johnson reminds consumers how much Americans waste every day. The ad encourages consumers to access the company's website and Pinterest for more green tips.

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

LO 2-2 Detect some of the ethical issues that may arise in business.

Recognizing Ethical Issues in Business

Recognizing 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