

## **Business Ethics**

Perhaps the most practical approach is to view ethics as a [catalyst](#) that causes managers to take socially responsible actions. The movement toward including ethics as a critical part of management education began in the 1970s, grew significantly in the 1980s, and is expected to continue growing. Hence, business ethics is a critical component of business leadership. Ethics can be defined as our concern for good behavior. We feel an obligation to consider not only our own personal well-being but also that of other human beings. This is similar to the [precept](#) of the Golden Rule: Do unto others as you would have them do unto you. In business, ethics can be defined as the ability and [willingness](#) to reflect on values in the course of the organization's decision-making process, to determine how values and decisions affect the various [stakeholder](#) groups, and to establish how managers can use these precepts in day-to-day company operations. Ethical business leaders [strive](#) for fairness and justice within the confines of sound management practices.

Many people ask why ethics is such a vital component of management practice. It has been said that it makes good business sense for managers to be ethical. Without being ethical, companies cannot be competitive at either the national or international levels. While ethical management practices may not necessarily be linked to specific indicators of financial profitability, there is no inevitable conflict between ethical practices and a firm's emphasis on making a profit; our system of competition presumes underlying values of truthfulness and fair dealing.

The employment of ethical business practices can enhance overall corporate health in three important areas. The first area is productivity.

The employees of a corporation are stakeholders who are affected by management practices. When management considers ethics in its actions toward stakeholders, employees can be positively affected. For example, a corporation may decide that business ethics requires a special effort to ensure the health and welfare of employees. Many corporations have established employee advisory programs (EAPs), to help employees with family, work, financial, or legal problems, or with mental illness or chemical dependency. These programs can be a source of enhanced productivity for a corporation.

A second area in which ethical management practices can enhance corporate health is by positively affecting "outside" stakeholders, such as suppliers and customers. A positive public image can attract customers. For example, a manufacturer of baby products carefully guards its public image as a company that puts customer health and well-being ahead of corporate profits, as exemplified in its code of ethics.

The third area in which ethical management practices can enhance corporate health is in minimizing regulation from government agencies. Where companies are believed to be acting unethically, the public is more likely to put pressure on legislators and other government officials to regulate those businesses or to enforce existing regulations. For example, in 1990 hearings were held on the rise in gasoline and home heating oil prices

following Iraq's invasion of Kuwait, in part due to the public perception that oil companies were not behaving ethically.

### Code of Ethics

A code of ethics is a formal statement that acts as a guide for how people within a particular organization should act and make decisions in an ethical fashion. Ninety percent of the *Fortune* 500 firms, and almost half of all other firms, have ethical codes. Codes of ethics commonly address issues such as conflict of interest, behavior toward competitors, privacy of information, gift giving, and making and receiving political contributions. According to a recent survey, the development and distribution of a code of ethics within an organization is perceived as an effective and efficient means of encouraging ethical practices within organizations.

Business leaders cannot assume, however, that merely because they have developed and distributed a code of ethics an organization's members have all the guidelines needed to determine what is ethical and will act accordingly. There is no way that all situations that involve decision making in an organization can be addressed in a code. Codes of ethics must be monitored continually to determine whether they are comprehensive and [usable](#) guidelines for making ethical business decisions. Managers should view codes of ethics as tools that must be evaluated and refined in order to more effectively encourage ethical practices.

### Creating an Ethical Workplace

Business managers in most organizations commonly strive to encourage ethical practices not only to ensure moral conduct, but also to gain whatever business advantage there may be in having potential consumers and employees regard the company as ethical. Creating, distributing, and continually improving a company's code of ethics is one usual step managers can take to establish an ethical [workplace](#).

Another step managers can take is to create a special office or department with the responsibility of ensuring ethical practices within the organization. For example, management at a major supplier of missile systems and aircraft components has established a corporate ethics office. This ethics office is a [tangible](#) sign to all employees that management is serious about encouraging ethical practices within the company.

Another way to promote ethics in the workplace is to provide the work force with appropriate training. Several companies conduct training programs aimed at encouraging ethical practices within their organizations. Such programs do not attempt to teach what is moral or ethical but, rather, to give business managers criteria they can use to help determine how ethical a certain action might be. Managers then can feel confident that a potential action will be considered ethical by the general public if it is consistent with one or more of the following standards:

1. *The Golden Rule*: Act in a way you would want others to act toward you.

2. *The utilitarian principle:* Act in a way that results in the greatest good for the greatest number.
3. *Kant's categorical imperative:* Act in such a way that the action taken under the circumstances could be a universal law, or rule, of behavior.
4. *The professional ethic:* Take actions that would be viewed as proper by a [disinterested](#) panel of professional peers.
5. *The TV test:* Always ask, "Would I feel comfortable explaining to a national TV audience why I took this action?"
6. *The legal test:* Ask whether the proposed action or decision is legal. Established laws are generally considered minimum standards for ethics.
7. *The four-way test:* Ask whether you can answer "yes" to the following questions as they relate to the decision: Is the decision truthful? Is it fair to all concerned? Will it build [goodwill](#) and better friendships? Will it be beneficial to all concerned?

Finally, managers can take responsibility for creating and sustaining conditions in which people are likely to [behave](#) ethically and for minimizing conditions in which people might be tempted to behave unethically. Two practices that commonly inspire [unethical](#) behavior in organizations are giving unusually high rewards for good performance and unusually severe punishments for poor performance. By eliminating such factors, managers can reduce much of the pressure that people feel to perform unethically. They can also promote the social responsibility of the organization.

## Social Responsibility

The term *social responsibility* means different things to different people. Generally, corporate social responsibility is the obligation to take action that protects and improves the welfare of society as a whole as well as organizational interests. According to the concept of corporate social responsibility, a manager must strive to achieve both organizational and societal goals.

Current perspectives regarding the fundamentals of social responsibility of businesses are listed and discussed through (1) the Davis model of corporate social responsibility, (2) areas of corporate social responsibility, and (3) varying opinions on social responsibility.

A model of corporate social responsibility that was developed by Keith Davis provides five propositions that describe why and how businesses should adhere to the obligation to take action that protects and improves the welfare of society and the organization:

- Proposition 1: Social responsibility arises from social power.
- Proposition 2: Business shall operate as an open system, with open [receipt](#) of inputs from society and open [disclosure](#) of its operation to the public.
- Proposition 3: The social costs and benefits of an activity, product, or service shall be thoroughly calculated and considered in deciding whether to proceed with it.

- Proposition 4: Social costs related to each activity, product, or service shall be passed on to the consumer.
- Proposition 5: Business institutions, as citizens, have the responsibility to become involved in certain social problems that are outside their normal areas of operation.

The areas in which business can become involved to protect and improve the welfare of society are numerous and diverse. Some of the most publicized of these areas are urban affairs, consumer affairs, environmental affairs, and employment practices. Although numerous businesses are involved in socially responsible activities, much controversy persists about whether such involvement is necessary or appropriate. There are several arguments for and against businesses performing socially responsible activities.

The best-known argument supporting such activities by business is that because business is a subset of and exerts a significant impact on society, it has the responsibility to help improve society. Since society asks no more and no less of any of its members, why should business be [exempt](#) from such responsibility? Additionally, profitability and growth go hand in hand with responsible treatment of employees, customers, and the community. However, studies have not indicated any clear relationship between corporate social responsibility and profitability.

One of the better known arguments against such activities is advanced by the distinguished economist Milton Friedman. Friedman argues that making business managers simultaneously responsible to business owners for reaching profit objectives and to society for enhancing societal welfare represents a conflict of interest that has the potential to cause the demise of business.

According to Friedman, this demise almost certainly will occur if business continually is forced to perform socially responsible behavior that is in direct conflict with private organizational objectives. He also argues that to require business managers to pursue socially responsible objectives may be unethical, since it requires managers to spend money that really belongs to other individuals.

Regardless of which argument or combination of arguments particular managers might support, they generally should make a concerted effort to perform all legally required socially responsible activities, consider [voluntarily](#) performing socially responsible activities beyond those legally required, and inform all relevant individuals of the extent to which their organization will become involved in performing social responsibility activities.

Federal law requires that businesses perform certain socially responsible activities. In fact, several government agencies have been established and are maintained to develop such business-related legislation and to make sure the laws are followed. The Environmental Protection Agency does indeed have the authority to require businesses to adhere to certain socially responsible environmental standards. Adherence to legislated social responsibilities represents the minimum standard of social responsibility

performance that business leaders must achieve. Managers must ask themselves, however, how far beyond the minimum they should attempt to go—a difficult and complicated question that entails assessing the positive and negative outcomes of performing socially responsible activities. Only those activities that contribute to the business's success while contributing to the welfare of society should be undertaken.

**Social Responsiveness.** Social responsiveness is the degree of effectiveness and efficiency an organization displays in pursuing its social responsibilities. The greater the degree of effectiveness and efficiency, the more socially responsive the organization is said to be. The socially responsive organization that is both effective and efficient meets its social responsibilities without wasting organizational resources in the process. Determining exactly which social responsibilities an organization should pursue and then deciding how to pursue them are perhaps the two most critical decision-making aspects of maintaining a high level of social responsiveness within an organization. That is, managers must decide whether their organization should undertake the activities on its own or acquire the help of outsiders with more expertise in the area.

In addition to decision making, various approaches to meeting social obligations are another determinant of an organization's level of social responsiveness. A desirable and socially responsive approach to meeting social obligations involves the following:

- Incorporating social goals into the annual planning process
- Seeking comparative industry norms for social programs
- Presenting reports to organization members, the board of directors, and [stockholders](#) on progress in social responsibility
- Experimenting with different approaches for measuring social performance
- Attempting to measure the cost of social programs as well as the return on social program investments

S. Prakash Sethi presents three management approaches to meeting social obligations: (1) the social obligation approach, (2) the social responsibility approach, and (3) the social responsiveness approach. Each of Sethi's three approaches contains behavior that reflects a somewhat different attitude with regard to businesses performing social responsible activities. The social obligation approach, for example, considers business as having primarily economic purposes and confines social responsibility activity mainly to conformance to existing laws. The socially responsible approach sees business as having both economic and societal goals. The social responsiveness approach considers business as having both societal and economic goals as well as the obligation to anticipate upcoming social problems and to work actively to prevent their appearance.

Organizations characterized by attitudes and behaviors consistent with the social responsiveness approach generally are more socially responsive than organizations characterized by attitudes and behaviors consistent with either the social responsibility approach or the social obligation approach. Also, organizations characterized by the social responsibility approach generally achieve higher levels of social responsiveness than organizations characterized by the social obligation approach. As one moves from

the social obligation approach to the social responsiveness approach, management becomes more [proactive](#). Proactive managers will do what is [prudent](#) from a business viewpoint to reduce liabilities whether an action is required by law or not.

**Areas of Measurement.** To be consistent, measurements to gauge organizational progress in reaching socially responsible objectives can be performed. The specific areas in which individual companies actually take such measurements vary, of course, depending on the specific objectives of the companies. All companies, however, probably should take such measurements in at least the following four major areas:

1. *Economic function:* This measurement gives some indication of the economic contribution the organization is making to society.
2. *Quality-of-life:* The measurement of quality of life should focus on whether the organization is improving or [degrading](#) the general quality of life in society.
3. *Social investment:* The measurement of social investment deals with the degree to which the organization is investing both money and human resources to solve community social problems.
4. *Problem-solving:* The measurement of problem solving should focus on the degree to which the organization deals with social problems.

**The Social Audit: A Progress Report.** A [social audit](#) is the process of taking measurements of social responsibility to assess organizational performance in this area. The basic steps in conducting a social audit are monitoring, measuring, and appraising all aspects of an organization's socially responsible performance. Probably no two organizations conduct and present the results of a social audit in exactly the same way. The social audit is the process of measuring the socially responsible activities of an organization. It monitors, measures, and appraises socially responsible performance.

Managers in today's business world increasingly need to be aware of two separate but interrelated concerns—business ethics and social responsibility.

## Bibliography

Aupperle, K.E. Carroll, A.B., and Hatfield, J.D. (1985). "An Empirical Examination of the Relationship between Corporate Responsibility and Profitability." *Academy of Management Journal* June: 446-63.

Davis, L. (1975). "Five Propositions for Social Responsibility." *Business Horizons* June: 19-24.

Friedman, M. (1989). "Freedom and Philanthropy: An Interview with Milton Friedman." *Business and Society Review* Fall: 11-18.

McGuire, J.B., Sundgren, A., and Schneeweis, T. (1988). "Corporate Social Responsibility and Firm Financial Performance." *Academy of Management Journal* December: 854-72.

Ross, T. (1988). *Ethics in American Business*. New York: Touche Ross & Co.

Sethi, S. P. (1975). "Dimensions of Corporate Social Performance: An Analytical Framework." *California Management Review* Spring: 58-64.

[Article by: THOMAS HAYNES]