

Chapter 22 –Social & Ethical Responsibilities of Business

Ethics: The study of Right and Wrong

- Affects of decision making – Ethical V Unethical decisions – report crime to Gardai.

Social Responsibilities: Our Responsibilities to everybody with whom we come into contact- Parents, family, friends etc

- E.g. Loud music that annoys neighbours – socially irresponsible.

Ethical Business Practice

That Business is conducted in a fair, legal and honest manner- that the business fulfils its legal and moral responsibilities to all its stakeholders.

- **Business ethics** is concerned with honesty, justice and fairness.
- Many business people are **ethical** in their dealings with workers, customers and govt. e.g. paying fair wages, good work conditions, providing quality goods at fair prices, paying all lawful taxes, protecting the environment.
- Examples of **unethical business decisions**: low wages, failure to compensate customers for damaged goods, failing to pay taxes, polluting rivers knowingly via spillage from factories, destroying the world's rainforests in the interest of development.

Why are businesses Unethical Practice:

- **To keep ahead of rivals.**
- In order to **push employees into high performance** and to reward handsomely the achievement of objectives – Employees may in turn cut corners and ignore the rights and wrongs of their actions.
- **Value system in individuals different** – Certain actions which one might consider acceptable might be condemned by society a whole.

Ethical Behaviour is encouraged in the following ways:

- Influence of an ethical MD on the staff as a whole.
- An ethical minded MD will hire staff, that are like minded – culture of ethical behaviour will prevail in the firm- if a wrongdoing occurs, there will be no cover up!
- By companies drawing up a rulebook of proper behaviour- code of ethics!

A **code of ethics** is a written statement outlining the behaviour that is expected from the business in its dealings with staff, customers and the community in which it operates.

Social Responsibilities

Businesses like individuals have social responsibilities – they must consider the effects of their decisions on a wide range of people who are collectively called the stakeholders – customers, employees, investors, community and local and global environment.

Customers : Businesses must produce goods that will not injure customers in any way, provide goods that are healthy, of good quality, fairly priced, provide good after sales service and using advertising that is not misleading etc – Not the case in the past.

Employees: Pay fair wages, create reasonable working conditions (no discrimination etc), maintain employment, and create safe working conditions.

Investors: Ensure firm is run properly in a way that their investment is secure and earning a reasonable return- For example: No excessive perks to managers!!

Community: Firms are responsible to those who live nearby – Must control noise, pollution, traffic disruption and its premises should have an attractive appearance.

- A business may have a tree planting promotion or provide an amenity (park) for its employees which it shares with the local community.
- A business also has a social responsibility to the nation to pay taxes and obey laws.

The Environment:

3 P's of environmental protection must be practiced by businesses:

1. **Production** processes must be clean, safe and quiet.
2. **Product** must be safe and healthy.
3. **Packaging** must be capable of being recycled.

Environmental damage or pollution can be caused in different ways:

- **Careless dumping of toxic or hospital waste** – health hazard.
- Damage to water systems by **careless disposing of oil and chemicals**.
- Chemical and Electricity companies – **releasing waste into the air** = acid rain – damaging and killing trees.
- **Damage to Ozone Layer:** Production of CFC's – greenhouse effect and skin cancer may result.
- **Forests are being cut down:** Rate – 1 hectare per minute for agricultural use and to provide raw materials for industry.
- **Oil and Gas resources** are also being used up.

Monitoring Pollution: Govt. have set up agencies to **monitor** the environmental situation in their own countries and to **penalise** firms that are found causing damage to the environment – Ireland – **The EPA (Environmental Protection Agency)** – issues Pollution Control **Licences** – It penalises firms that exceed their emission levels.

Environmental Impact Study:

- Examination of a firm's plans before they are implemented to ascertain their impact on the total environment in which it operates.
- Environmental impact assessments are carried out to try to ensure their firm practice the 3 P'S!

Characteristics of an Environmentally conscious firm:

- **Sensitivity:** Being sensitive to all environmental issues in decision making – involves a social audit, which is a checklist against which a business measures whether it is being socially responsible towards its stakeholders.
- **Openness:** Being open to developing and implementing new methods (and criticism) and ideas for dealing with environmental issues.
- **Honesty:** Being honest in all matters affecting the environment, even when things go wrong, for example not covering up industrial accidents.
- **Awareness:** Being aware of the importance of the environment, promoting environmental awareness among employees; awareness of the damage the firm can cause to the environment, and ensuring that all the environment is protected.
- **Consultation:** Consulting all stakeholders when developing and implementing policies that affect the environment.

Managing Social Responsibilities – Strategy's used by different firms

The Reaction Strategy

- **Only be responsible when a complaint arises-** Lack of foresight.
- Emergency meetings called.
- This policy may come from management policy of not spending money on what is considered an unnecessary matter.

The Accommodating Strategy

- **When a problem occurs, the firm apologises and promises to do all in their power to rectify the situation but when all the fuss dies down they forget about it.**
- These firms appear to be socially conscious but are really not!

The Proactive Strategy

- **These firms try to anticipate problems before they occur.**
- They try to act correctly and responsibly from the beginning, rather than wait for problems to occur – ideal type of firm but rare!
- Such firms often use a **social audit, which is a measure of social responsibility**, (a checklist against which a business can measure its ability to be socially responsible).

Arguments For and Against Social Responsibility

Impact of Environmental Issues on Business

1. **Loss of Goodwill** among customers and the general public.
2. If a firm is found guilty of polluting, may suffer **heavy penalties in the form of heavy fines.**
3. Environmental issues play an important role in the granting **and non-granting of planning permission** to set up or extend a business.
4. Businesses may be **restricted regarding future activities.**

Costs of Being Socially Responsible to Industry

- Costs increase in the short term.
- This may lead to rising prices and a drop in competitiveness.
- If a firm can withstand this in the long term its future may be more secure due to an improved corporate image and greater customer loyalty.
- **The costs of doing business in a proper manner include:**
 - **Increased costs of production-** e.g. using recycled paper.
 - **Increased cost of equipment** to reduce pollution and emissions.
 - **Increased cost of changing production methods** to meet environmental demands.
 - **Adverse Publicity** – Bad publicity and image if firm not seen to be acting socially responsible.
 - **Fines or Prison Sentences: EPA** – If firm offends.
 - **Cost of developing new environmentally responsible products.**
 - **Costs of disposing** of dangerous and toxic waste.
 - **Costs of developing code of ethics and social audits** to ensure the firm is acting responsibly.
 - **Costs of paying fair wages and providing**
 - **Good working conditions.**

Some costs are also borne by the community – for example – taxes the people pay to the government regarding the protection of the community – **Green Taxes** – Tax on fuel to try and reduce consumption and lower emissions.