**AIU Exam – Ethics & Social Responsibility**

**School**: Business & Economics

**Major**: Business Administration

**Course title**: Ethics & Social Responsibility

**Brief introduction**

The obligations and responsibilities of managers and the companies they work for toward the people and society that are affected by their actions are examined in this chapter. First, the nature of ethics and the sources of ethical problems are examined followed by the discussion of the major stakeholder groups that are affected by how companies operate. Thereafter, the four rules or guidelines managers can use to decide whether a specific business decision is ethical or unethical are looked at. Finally, the sources of managerial ethics and the reasons why it is important for a company to behave in a socially responsible manner are considered. The main objective of this chapter is to help understand the central role of ethics in shaping the practice of management and the life of a people, society, and nation.

**Answers to the questions**

**1.What is the relationship between ethics and the law?**

The laws that specify what people can and cannot do can lobbied for and passed by the society as a whole, using the political and legal process. Many different kinds of laws govern business for example, laws against fraud and deception and laws governing how companies can treat their employees and customers.

Laws also specify what sanctions or punishments will follow if those laws are broken. Different groups in society lobby for which laws should be passed based on their own personal interests and beliefs about right and wrong. The group that can summon the most support can pass laws that align with its interests and beliefs. Once a law is passed, a decision about what the appropriate behaviour is with regard to a person or situation is taken from the personally determined ethical realm to the societally determined legal realm.

If you do not conform to the law, you can be prosecuted; and if you are found guilty of breaking the law, you can be punished. You have little say in the matter; your fate is in the hands of the court and its lawyers.

In studying the relationship between ethics and law, it is important to understand that neither laws nor ethics are fixed principles that do not change over time. Ethical beliefs change as time passes; and as they do so, laws change to reflect the changing ethical beliefs of a society.

**2. Why do the claims and interests of stakeholders sometimes conflict?**

Stakeholders supply a company with its productive resources; as a result, they have a claim on and a stake in the company. Because stakeholders can directly benefit or be harmed by its actions, the ethics of a company and its managers are important to them. Stockholders have a claim on a company because when they buy its stock or shares they become its owners. When the founder of a company decides to publicly incorporate the business to raise capital, shares of the stock of that company are issued. This stock grants its buyers ownership of a certain percentage of the company and the right to receive any future stock dividends.

Stockholders are interested in how a company operates because they want to maximize the return on their investment. Thus they watch the company and its managers closely to ensure that management is working diligently to increase the company’s profitability.

Stockholders also want to ensure that managers are behaving ethically and not risking investors’ capital by engaging in actions that could hurt the company’s reputation. No company wants the reputation described by the Occupy Wall Street protesters, who alleged that business organizations value money over people and work in the self-interest of a privileged few. However, experts warn businesses not to ignore the movement. Harvard bloggers say the persistence of Occupy Wall Street is “a signal that there is authentic, deep-seated unhappiness with the failings of the U.S. economic system. It’s an indicator that economic inequality is perceived as an important issue—one requiring businesses’ immediate attention.”

**3. Why should managers use ethical criteria to guide their decision making?**

The relentless pursuit of self-interest can lead to a collective disaster when one or more people start to profit from being unethical because this encourages other people to act in the same way. The pursuit of individual self-interest with no consideration of societal interests leads to disaster for each individual and for the whole society because scarce resources are destroyed.

Suppose companies and their managers operate in an unethical society, meaning one in which stakeholders routinely try to cheat and defraud one another. When they do not trust each other, stakeholders will probably spend hours bargaining over fair prices, and this is a largely unproductive activity that reduces efficiency and effectiveness. The time and effort that could be spent improving product quality or customer service are lost to negotiating and bargaining. Thus unethical behaviour ruins business commerce, practical rule an ethical decision is one that a manager has no reluctance about communicating to people outside the company because the typical person in a society would think it is acceptable.

On the other hand, suppose companies and their managers operate in an ethical society, meaning stakeholders believe they are dealing with others who are basically moral and honest. In this society stakeholders have a greater reason to trust others. Trust is the willingness of one person or group to have faith or confidence in the goodwill of another person, even though this puts them at risk (because the other might act in a deceitful way). When trust exists, stakeholders are likely to signal their good intentions by cooperating and providing information that makes it easier to exchange and price goods and services.

When one person acts in a trustworthy way, this encourages others to act in the same way. Over time, as greater trust between stakeholders develops, they can work together more efficiently and effectively, which raises company performance. As people see the positive results of acting in an honest way, ethical behavior becomes a valued social norm, and society in general becomes increasingly ethical.

As noted in Chapter 1, a major responsibility of managers is to protect and nurture the resources under their control. Any organizational stakeholders—managers, workers, stockholders, suppliers—who advance their own interests by behaving unethically toward other stakeholders, either by taking resources or by denying resources to others, waste collective resources. If other individuals or groups copy the behavior of the unethical stakeholder, the rate at which collective resources are misused increases, and eventually few resources are available to produce goods and services. Unethical behaviour that goes unpunished creates incentives for people to put their unbridled self-interests above the rights of others. When this happens, the

benefits that people reap from joining together in organizations disappear quickly.

An important safeguard against unethical behaviour is the potential for loss of reputation. Reputation, the esteem or high repute that people or organizations gain when they behave ethically, is an important asset. Stakeholders have valuable reputations that they must protect because their ability to earn a living and obtain resources in the long run depends on how they behave.

**4. As an employee of a company, what are some of the most unethical business practices that you have encountered in its dealings with stakeholders?**

I was an employee of a pharmaceutical company in my country and the unethical practices I encountered during my two-year work contract included releasing products that are not of a consistent quality because of defective input concentrations or even wrong inputs added in the reaction chambers.

I also witnessed the production of wrong product batches that may be dangerous or defective and harmful to customers. Additionally, the workplace health and safety rules and requirements were compromised most of the times to reduce costs and maximize output while employees are not given adequate training to maintain and service machinery and equipment.

**5. What are the main determinants of business ethics?**

The main determinants of differences in a manager’s, company’s, and country’s business ethics are societal, occupational, individual, and organizational.

Societal ethics are standards that govern how members of a society should deal with one another in matters involving issues such as fairness, justice, poverty, and the rights of the individual. Societal ethics emanate from a society’s laws, customs, and practices and from the unwritten values and norms that influence how people interact with each other.

Occupational ethics are standards that govern how members of a profession, trade, or craft should conduct themselves when performing work-related activities. Within an organization, occupational rules and norms often govern how employees such as lawyers, researchers, and accountants should make decisions to further stakeholder interests. Employees internalize the rules and norms of their occupational group (just as they do those of society) and often follow them automatically when deciding how to behave.

Individual ethics are personal standards and values that determine how people view their responsibilities to other people and groups and thus how they should act in situations when their own self-interests are at stake. Sources of individual ethics include the influence of one’s family, peers, and upbringing in general. The experiences gained over a lifetime—through membership in social institutions such as schools and religions, for example—also contribute to the development of the personal standards and values that a person uses to evaluate a situation and decide what is the morally right or wrong way to behave.

Organizational ethics are the guiding practices and beliefs through which a particular company and its managers view their responsibility toward their stakeholders. The individual ethics of a company’s founders and top managers are especially important in shaping the organization’s code of ethics. Company credos, such as that of Johnson & Johnson, are meant to deter self-interested, unethical behaviour; to demonstrate to managers and employees that a company will not tolerate people who, because of their own poor ethics, put their personal interests above the interests of other organizational stakeholders and ignore the harm they are inflicting on others; and to demonstrate that those who act unethically will be punished. If a company’s top managers consistently endorse the ethical principles in its corporate credo, they can prevent employees from going astray. Employees are much more likely to act unethically when a credo does not exist or is disregarded.

**Use the chapter material to decide how you, as a manager, should respond to each of the following ethical dilemmas:**

**1. You are planning to leave your job to go work for a competitor; your boss invites you to an important meeting where you will learn about new products your company will be bringing out next year. Do you go to the meeting?**

Yes, I will go for the meeting. When making business decisions, managers must consider the claims of all stakeholders. To help themselves and employees make ethical decisions and behave in ways that benefit their stakeholders, managers can use four ethical rules or principles to analyse the effects of their business decisions on stakeholders: the utilitarian, moral rights, justice, and practical rules. These rules are useful guidelines that help managers decide on the appropriate way to behave in situations where it is necessary to balance a company’s self-interest and the interests of its stakeholders. Remember, the right choices will lead resources to be used where they can create the most value. If all companies make the right choices, all stakeholders will benefit in the long run.

Each of these rules offers a different and complementary way of determining whether a decision or behaviour is ethical, and all three rules should be used to sort out the ethics of a particular course of action. Ethical issues, as we just discussed, are seldom clear-cut, however, because the rights, interests, goals, and incentives of different stakeholders often conflict. For this reason, many experts on ethics add a fourth rule to determine whether a business decision is ethical: The practical rule is that an ethical decision is one that a manager has no hesitation or reluctance about communicating to people outside the company because the typical person in a society would think it is acceptable.

Applying the practical rule to analyse a business decision ensures that managers are taking into account the interests of all stakeholders. After applying this rule, managers can judge if they have chosen to act in an ethical or unethical way, and they must abide by the consequences.

**2. You’re the manager of sales in an expensive sports car dealership. A young executive who has just received a promotion comes in and wants to buy a car that you know is out of her price range. Do you encourage the executive to buy it so you can receive a big commission on the sale?**

As a manager I will apply the Moral Rights Rule whereby, an ethical decision is one that best maintains and protects the fundamental or inalienable rights and privileges of the people affected by it. For example, ethical decisions protect people’s rights to freedom, life and safety, property, privacy, free speech, and freedom of conscience.

From a moral rights perspective, managers should compare and contrast different courses of business action on the basis of how each course will affect the rights of the company’s different stakeholders. Managers should then choose the course of action that best protects and upholds the rights of all stakeholders.

**3. You sign a contract to manage a young rock band, and that group agrees to let you produce their next seven records, for which they will receive royalties of 5 percent. Their first record is a smash hit and sells millions. Do you increase their royalty rate on future records?**

Yes. As a manager, I will apply the justice rule which is an ethical decision that distributes benefits and harms among people and groups in a fair, equitable, or impartial way. Managers should compare and contrast alternative courses of action based on the degree to which they will fairly or equitably distribute outcomes to stakeholders. For example, employees who are similar in their level of skill, performance, or responsibility should receive similar pay; allocation of outcomes should not be based on differences such as gender, race, or religion.

The ethical dilemma for managers is to determine the fair rules and procedures for distributing outcomes to stakeholders. Managers must not give people they like bigger raises than they give to people they do not like, for example, or bend the rules to help their favourites. On the other hand, if employees want managers to act fairly toward them, then employees need to act fairly toward their companies by working hard and being loyal. Similarly, customers need to act fairly toward a company if they expect it to be fair to them—something people who illegally copy digital media should consider.

**Managing Ethically**

**Apple Juice or Sugar Water?**

**I**n the early 1980s Beech-Nut, a maker of baby foods, was in grave financial trouble as it strove to compete with Gerber Products, the market leader. Threatened with bankruptcy if it could not lower its operating costs, Beech-Nut entered an agreement with a low-cost supplier of apple juice concentrate. The agreement would save the company over $250,000 annually when every dollar counted. Soon one of Beech-Nut’s food scientists became concerned about the quality of the concentrate. He believed it was not made from apples alone but contained large quantities of corn syrup and cane sugar. He brought this information to the attention of top managers at Beech-Nut, but they were obsessed with the need to keep costs down and chose to ignore his concerns. The company continued to produce and sell its product as pure apple juice.

Eventually investigators from the U.S. Food and Drug Administration (FDA) confronted Beech-Nut with evidence that the concentrate was adulterated. The top managers issued denials and quickly shipped the remaining stock of apple juice to the market before their inventory could be seized. The scientist who had questioned the purity of the apple juice had resigned from Beech-Nut, but he decided to blow the whistle on the company. He told the FDA that Beech-Nut’s top management had known of the problem with the concentrate and had acted to maximize company profits rather than to inform customers about the additives in the apple juice. In 1987 the company pleaded guilty to charges that it had deliberately sold adulterated juice and was fined over $2 million. Its top managers were also found guilty and were sentenced to prison terms. The company’s reputation was ruined, and it was eventually sold to Ralston Purina, now owned by Nestlé, which installed a new management team and a new ethical code of values to guide future business decisions.

**Answer both questions… Short answers of 2 to 6 paragraphs**

**1. Why is it that an organization’s values and norms can become too strong and lead to unethical behaviour?**

Managers or workers may behave unethically if they feel pressured to do so by the situation they are in and by unethical top managers. People typically confront ethical issues when weighing their personal interests against the effects of their actions on others.

Research seems to suggest that people who realize they have the most at stake in a career sense or a monetary sense are the ones most likely to act unethically. And it is exactly in this situation that a strong code of organizational ethics can help people behave in the right or appropriate way. If a company’s top managers consistently endorse the ethical principles in its corporate credo, they can prevent employees from going astray. Employees are much more likely to act unethically when a credo does not exist or is disregarded.

**2. What steps can a company take to prevent this problem—to stop its values and norms from becoming so inwardly focused that managers and employees lose sight of their responsibility to their stakeholders?**

When making business decisions, managers must consider the claims of all stakeholders. To help themselves and employees make ethical decisions and behave in ways that benefit their stakeholders, managers can use four ethical rules or principles to analyse the effects of their business decisions on stakeholders: the utilitarian, moral rights, justice, and practical rules.

These rules are useful guidelines that help managers decide on the appropriate way to behave in situations where it is necessary to balance a company’s self-interest and the interests of its stakeholders. Remember, the right choices will lead resources to be used where they can create the most value. If all companies make the right choices, all stakeholders will benefit in the long run.

Thus ethical companies grow and expand over time, and all their stakeholders benefit. The results of unethical behaviour are loss of reputation and resources, shareholders selling their shares, skilled managers and employees leaving the company, and customers turning to the products of more reputable companies.

**Be the Manager**

**Creating an Ethical Code**

You are an entrepreneur who has decided to go into business and open a steak and chicken restaurant. Your business plan requires that you hire at least 20 people as chefs, waiters, and so on. As the owner, you are drawing up a list of ethical principles that each of these people will receive and must agree to when he or she accepts a job offer. These principles outline your view of what is right or acceptable behaviour and what will be expected both from you and from your employees.

Create a list of the five main ethical rules or principles you will use to govern how your business operates. Be sure to spell out how these principles relate to your stakeholders; for example, state the rules you intend to follow in dealing with your employees and customers.

**Ethical code for my steak and chicken restaurant**

1. Report to your duty at least 15 minutes prior to the starting of your wok to ensure that you are on time for duty.

2. Always maintain proper dress code including wearing a name tag authorized by the restaurant.

3. Remember you are strictly prohibited to smoke at your work place. Use the smoking zone only.

4. Never use any sort of abusive of offensive language to any guest, colleague or management. Do not talk loudly or make noise in front of guests.

5. While serving the guests, be observant and establish eye contact.

6. Treat all guests equally. Provide same standard of service to all guests.

**Conclusion on the chapter**

Ethical issues are central to how companies and their managers make decisions, and they affect not only the efficiency and effectiveness of company operations but also the prosperity of the nation. The result of ethical behaviour is a general increase in company performance and in a nation’s standard of living, well-being, and wealth.

**Bibliography of book**:

Jones, Gareth, and Jennifer George. *Contemporary management*. McGraw-Hill Higher Education, 2016. Chapter 4: Ethics and social responsibility.