CHAPTER 5

Ethics & Social Responsibility

Section 5.1 Ethical Business Behavior

Section 5.2 Socially Responsible Business & Philanthropy
Section 5.1: Ethical Business Behavior

OBJECTIVES

- Relate values to ethics
- Describe the benefits of practicing business ethics
- Explain ways that entrepreneurs can promote ethical behavior in the workplace
- Suggest solutions to ethical problems entrepreneurs may face
What Are Ethics?

Individual values form the basis of ethics, a set of moral principles that govern decisions and actions. To act ethically is to behave in ways that are in keeping with certain values.

- **Universal values** are values that are shared by all cultures throughout history.
- **Business ethics** are moral principles applied to business issues and actions.
- Entrepreneurs have considerable influence on their company’s business ethics.
Why Practice Business Ethics?

The main reason for behaving ethically, in business or in any area of life is simply that it’s *the right thing to do*.

Three practical reasons why you should practice business ethics:

- Customers are more confident when buying goods and services from an ethical company.
- An ethical workplace motivates employees.
- Ethical behavior also prevents legal problems.
Establishing an Ethical Workplace

Universal values establish a strong foundation for society and are also a good basis for running your business.

- To deter unethical behavior, companies try to create **transparency**, or openness and accountability in business decisions and actions.
- To enhance transparency, companies today are using social media, which are interactive electronic forms of communication such as blogs and message boards.
- A **whistle-blower** is a term for someone who reports illegal or unethical conduct to superiors or to the public.
Writing a Code of Ethics

A code of ethics describes a business’s moral philosophy and gives concrete guidelines for carrying it out.

- Writing a code of ethics forces you to clarify your own values and principles.
- Having a code will also help prevent and resolve ethical problems.
- A written code provides some protection against claims of unfairness.

Sample Code of Ethics

I. We value learning and will dedicate ourselves to giving each child the best education possible.
   We believe that education must encompass the whole child, both the body and the mind. We bring all of our skills and knowledge to promoting good physical health, fostering a full range of healthy emotions as well as social and relationship skills, and developing the mind to the fullest.

II. We value equality and will attack barriers of prejudice and injustice.
    We believe that each child has untold potential that must not be hindered by unfair limitations of stereotypes or bias. Rather, each child deserves the opportunity to identify and develop all the talents and skills that he or she possesses.

III. We value human dignity and will treat each child as a worthy, unique, and valued individual.
    We believe that dignity and worth are inborn qualities in every human being. Each child must be made to feel valued and loved unconditionally, regardless of abilities, social circumstance, behavior, personality traits, or any other interior or exterior condition.
Ethical Issues for Entrepreneurs

When faced with an ethical decision, it’s best to rely on your own strong personal values to help guide your response.

- **Intellectual property** is artistic and industrial creations of the mind.
  - **Copyright** is the exclusive right to perform, display, copy, or distribute an artistic work.
  - A **patent** is the exclusive right to make, use, or sell a device or process.
  - A **trademark** is a symbol that indicates that the use of a brand or brand name is legally protected and cannot be used by other businesses.

- **Conflict of interest** exists when personal considerations and professional obligations interfere with each other.

- **Confidentiality** involves respecting the privacy of others.
SECTION 5.2

Socially Responsible Business & Philanthropy

OBJECTIVES

- Define corporate social responsibility
- Explain entrepreneurs’ responsibilities to individuals
- Describe entrepreneurs’ environmental responsibilities
- Identify entrepreneurs’ community responsibilities
Corporate Social Responsibility

Corporate social responsibility means that businesses act in ways that balance profit and growth with the good of society.

- Corporate social responsibility often translates into profits. This advantage for business is sometimes described as “doing well by doing good.”

  Corporate Social Responsibility = Doing Well by Doing Good

- One type of socially-responsible corporate behavior is ethical sourcing, which means buying from suppliers who provide safe working conditions and respect workers’ rights.

Section 5.2: Socially Responsible Business & Philanthropy
Responsibility to Individuals

Corporate social responsibility affects employees, customers, investors, and creditors.

- Entrepreneurs have legal obligations to provide a safe workplace and fair employment policies.
- Business owners are bound by law to treat customers fairly.
- Acting responsibly toward suppliers or vendors results in making the best choices of materials and using them wisely.
- Investors and creditors provide the money to start and run a business. They must believe in both the idea behind the business and the entrepreneur.
Responsibility to the Environment

To an environmentalist, “green” means protecting natural resources. To an entrepreneur, being “green” means money.

- **Sustainable Design.** Sustainable products meet the planet’s current needs while preserving resources for future generations.

- **Alternative Energy.** Researchers are working to make fossil-fuel alternatives such as solar, wind, and hydrogen power more efficient.

- **Organics.** Organic produce, grains, and meats make up a small but steadily growing segment of the food market.

- **Fair Trade.** This is a way of doing business based on principles of social and environmental responsibility and promoting sustainable growth.
Creating an energy-efficient workplace saves money and can draw customers.

Five ways that a business can lower its expenses, while also helping the environment include:

- Getting into the recycling loop.
- Doing business electronically.
- Buying supplies in bulk.
- Replacing incandescent light bulbs with fluorescent ones.
- Using environmentally friendly transportation.
Responsibility to the Community

Businesses support disadvantaged and needy people, either for financial gain or because "It's the right thing to do."

- **Cause-related marketing** is a partnership between a business and a nonprofit group for the benefit of both. It increases sales for the business and raises money and awareness for the nonprofit group.

- **Sponsorship** is when a business sponsors a community event or service in exchange for advertising.

- With **facilitated giving**, a business makes it easier for customers to contribute to a cause.

- **Philanthropy** occurs when business leaders donate money and other resources for socially beneficial causes.

- An **in-kind donation** is the gift of a good or service.