**Chapter 22 - Social and Ethical Responsibilities of Business**

**Chapter objectives**

1. **To define Business Ethics and analyse how businesses encourage good ethical behaviour**
2. **To identify the social responsibilities of a business**
3. **To distinguish between the costs and benefits of being a socially responsible business**
4. **To examine the main environmental issues in business**
5. **To describe the characteristics of an environmentally conscious business**
6. **To analyses the costs and opportunities for environmentally conscious businesses**

* The main aim of any business is to make profit!
* Businesses depend on many people for a business to succeed.

**Business Ethics**

Ethics are moral principles that are concerned with right and wrong and honesty and fairness.

**What are Business Ethics?**

Business ethics refer to how people both inside and outside the business are treated by the business.

It distinguishes between what is right and what is wrong in a given situation.

Just because a practise is legal does not mean it is ethical.

**Code of Ethics**

* Businesses should have a code of ethics. This is a written statement outlining the behaviour expected of the business in its dealings with stakeholders and the community. It is a rulebook of right and wrong.

eg.: Chemical companies might be concerned with pollution control, banks may concentrate on honesty.

* An ethical decision means doing what is morally right; en ethical choice might not make the most amount of profit but it will benefit society greatly.

Eg: The Body Shop behaves ethically as it refuses to test its products on animals, it pays a fair price to its suppliers and it supports human rights campaigns.

**Encouraging Ethical Behaviour**

* Management provides ethical leadership and must lead by example. They need to disapprove and punish unethical behaviour.
* The firm should have a code of ethics in the workplace.
* Employees are given information and training in ethical business practices.
* The firm can hire an independent ethics auditor, to examine and evaluate the business’s ethical behaviour
* Promote a whistle blowing approach whereby staff members are encouraged to report any employees who are not behaving ethically.

eg.: AIB runs a confidential phone helpline whereby concerned employees can report to the top managers any examples of unethical behaviour in the bank.

**Social Responsibilities of a Business**

The social responsibility of a business is to treat all those it comes in contact with honesty.

O2 Ireland has published a guide to dealing with mobile phone bullying and a parent’s guide to mobile phones as part of its commitment to child protection.

Vodafone fulfils its social responsibility by giving time off to its employees who volunteer for charity work and by co-operating with the National Council for the Blind of Ireland to make text-to-speech mobile phones for blind people.

**The firm has social responsibilities to the following:**

**1) Customers**

* The firm should provide a quality good or service at a reasonable price.
* Products sold should meet all standards as set out in Sale of Goods … Act 1980
* All necessary information should be provided.
* The firm should also provide a good after-sales service.

**example**

A Dublin car dealer was found guilty of tampering with the milometer on a car he sold to a customer.

He did not fulfil his social responsibility to his customer.

**2) Employees**

* Employees should have safe and healthy working conditions – all employers responsibilities should be satisfied
* They should be paid a fair wage.
* All employment legislation should be followed in the workplace.

example

In 2006, a subcontractor working for the ESB in its Moneypoint, Co. Clare Station paid Polish workers considerably less than the going rate for the job.

This is not fair to these workers.

**3) Shareholders**

* The board of directors should be open and honest with shareholders and keep them informed about developments affecting the company.
* They should be paid a reasonable dividend and be informed about the financial affairs of the company.

example

Anglo Irish Bank falsified its accounts and loans book to sell shares and drive up its share price, this led to banking collapse and shareholders lost their investments.

**4) Local Community**

* The local community and environment should be respected.
* Firms should give something back to the local communities in which they operate. - i.e.: sponsorship, buy from local suppliers, hire local people etc.

example

Tesco Ireland tries to be socially responsible by buying the maximum amount of Irish-made products.

**5) Government**

* The Government helps businesses by giving them grants, by improving the infrastructure, by lowering taxes, etc.
* The firm should obey all government legislation.
* All taxes should be collected and corporation tax on profits should be paid on time.

example

National Irish Bank was found to have encouraged Irish people to evade tax in the 1990’s by operating bogus non-resident accounts whereby they pretended that they didn’t live in Ireland so that they wouldn’t have to pay interest earned on their savings.

**6) Suppliers**

* Suppliers should be paid on time for goods supplied.
* They should receive fair and honest treatment.

**Costs & Rewards of being Socially Responsible**

**1. Customers**

* Providing an after sales service to customers costs the firm money, as does dealing with all complaints and providing redress for faulty goods or services.
* Most customers care about the environment and where they live. They like being treated well. They prefer to buy from firms whose ethics and social responsibility programme they agree with.

example

The Body Shop because of its stance on human rights issues and because it buys materials from poorer countries.

**2. Employees**

* The firm must pay a fair wage (at least the minimum wage) and ensure there are safe and healthy working conditions.
* The social needs of the employee must also be met with social clubs, nights out, etc.
* Workers like to work for businesses that pay good wages and offer good working conditions. This makes it easier to keep and recruit staff.

**3. Suppliers**

* A fair price should be paid to suppliers for materials. They should be paid on time, which may add to a firm’s costs.
* They may look after the business in the long run with first refusal on new products, extended credit periods, larger discounts etc.

**4. Local Community**

* Although not obliged to do so, companies often put something back into local communities.

eg.: sponsorship of a local team

* Companies hire local employees
* Companies create spin off business for local suppliers
* The local community will be loyal to the business.

**5. Investment and the Environment.**

* In order to protect the environment, the firm should try to recycle as much as possible. Safe dumping of all waste is also necessary, which adds to the firms costs.
* They should work closely to the EPA and obey all laws regarding pollution.
* Socially responsible businesses will find it easier to attract capital. Investors don’t want their money tied up in illegal or harmful activities. Consumers will buy from businesses that are environmentally conscious. This will generate profits in the long term.

**Environmental Issues and Business**

These are the main areas concerning the impact of business on the environment and how they can minimise this impact.

**1) Pollution**

* This involves humans introducing substances into nature which have a harmful effect on the environment.
* Firms must be careful not to pollute the environment

**example:** air, water or noise pollution

* Reduce fossil fuels and emissions to reduce acid rain which harms forests and plants.
* Reduce the chemical CFC (in aerosol cans, refrigerators, etc). This will protect the ozone layer and stop the harmful ultraviolet rays coming through that cause skin cancer.
* Water can be polluted by farm and factory effluent, oil spillages, etc that kill fish and harm drinking water.
* Roads can become congested with traffic.
* Any firms found to be causing pollution will be fined by the Environmental Protection Agency (EPA)

**2) Energy Consumption**

* + Firms should be trying to conserve energy where possible.
  + Oil which is our main source of energy will eventually run out; as will gas, coal, peat, etc. Large forests are being removed. We are using resources more quickly than they are being replaced.
  + Firms need to use these resources more efficiently.
  + Firms should switch to renewable sources of energy, such as wind and solar power.

**3) Sustainable Development**

* + This is development that meets the needs of today but doesn’t compromise/damage the ability of future generations to meet their needs.
  + Businesses and society should protect and preserve the environment so that future generation can live and prosper. If businesses take something from nature they should replace it.
  + For every tree chopped down, a new one should be planted.
  + Avoid wasting vital resources, use recyclable materials.
  + Stop using harmful, toxic materials and use less harmful ingredients.
  + Use renewable forms of energy.

**4) Climate Change**

* + Global warming is the major environmental issue of the twenty-first century. Global warming refers to an increase in the average temperature in the world. This will lead to storms, floods, droughts, etc.
  + It is caused by greenhouse gases such as carbon dioxide caused by burning fossil fuels in factories, emissions from cars, etc. Industry and business are contributing to this by damaging the ozone layer as a result of chemical emissions.
  + Businesses should use fossil fuels efficiently. They should switch to renewable forms of energy such as wind and solar power.

**5) Dumping and Waste Disposal**

* + Vast amounts of waste are produced each year (packaging, chemicals, etc).
  + Some firms dump some of this illegally in order to reduce costs.
  + Waste should be disposed of in a way that doesn’t harm the environment.
  + Businesses should reduce the amount of waste they produce.
  + Reduce – use emails instead of written memos
  + Reuse – shredded paper for packaging
  + Recycle – paper, cardboard, bottles, etc.

**Characteristics of an Environmentally Conscious Company**

1. **Sensitive**

* The business should be conscious of keeping waste and pollution to a minimum. They will reduce, reuse and recycle

2. **Openness**

* The business should be open to new methods and new thinking on environmental issues. They should be willing to learn about environmental issues.

3. **Honesty**

* The business should tell the truth in all matters relating to the environment.

Example If a business accidentally pollutes a river it should tell the appropriate authorities straight away.

This allows the authorities to repair the damage as quickly as possible.

**4. Awareness**

* The firm is aware of the importance of the environment and promotes environmental awareness among its employees through talks and reminders posted in the workplace.
* It carries out regular environmental audits to see the impact the business is having on the environment and takes steps to reduce any harmful effects it has on the environment.

**5. Consultation**

* The local community, environmental groups and other stakeholders should be consulted before a business makes any decisions which will affect the environment.
* They should be allowed to comment on the project and its environmental effects.
* Example: Tesco listened to complaints about abandoned trolleys from locals near its Nutgrove Shopping Centre in south Dublin. Each week 120 trolleys were taken from the centre and ended up in laneways, gardens and rivers. Tesco introduced a system where the wheels lock automatically if someone tries to bring the trolley outside the car park. A month after the system was introduced only one trolley had left the car park.

**6. Machinery and Production**

* Investment will take place in new, cleaner machinery which reduces pollution.
* The use of chemical products will be minimised.
* **Costs of Meeting Ethical, Social and Environmental Responsibilities**

**A) Cost Increases**

1. Cost of Production

* Firms will have to pay more for environmentally materials, packaging, recycling, waste disposal, etc.

2. Capital Costs

* New Machinery and equipment have to be purchased to make production processes (environmentally) safer.
* **eg.:** reducing gas emissions.

3. Labour Costs

* Labour costs increase as workers need to receive better wages. Firms also need to provide proper working conditions and training.

4. Research and Development Costs

* The business will need to develop new ‘green’ products that are recyclable and that won’t harm the environment. These will increase the businesses costs and lower profits.

5. **EPA Regulations**

* The EPA issues pollution control licences to firms and can impose fines on firms that cause pollution.
* If taken to court, these firms may also incur legal expenses.

**6. Adverse Publicity**

* The costs of getting a poor public image are difficult to measure, but may be great.
* If a firm gets a bad name in relation to ethical, social or environmental issues, their sales and profits will suffer.

**eg.:** Shell to Sea Campaign, Eirgrid etc

**Opportunities for Firms in being Environmentally Responsible**

**1) Cost Reductions**

* The use of clean and more efficient production systems means that firms can often reduce their costs as they move from older, dirtier and less efficient methods.

**eg.:** Boeing designed its 787 Dreamliner jet using materials to make the plane lighter and more fuel efficient. The costs of this included R&D, the cost of building the plane, etc.

However, it uses 20% less fuel than other planes. Boeing has received a huge number of orders from other airline companies as a result.

**2) New Business Opportunities**

* New technologies and methods used to reduce and treat waste may become business opportunities in themselves.

**eg.:** businesses trying to recycle their own products could end up recycling the products of others and turn into recycling firms

**3) Green Consumers**

* If firms have a good public image due to being ethical and socially and environmentally conscious, then they will attract new customers.
* Most customers care about the environment and society.
* This leads to higher sales and profits

**eg.:** The Body Shop

**4) Financial Institutions**

* These are sensitive to environmental issues and may have them as conditions to granting finance

**5) Employees**

* A positive attitude to environmental issues is good for employee morale.
* Staff are happier working in clean, safe working conditions for a firm that cares about the environment.