

Chapter 3: Business Ethics and Social Responsibility

Business Ethics

Ethics are rules that help us tell the difference between right and wrong. They encourage us to do the right thing.

What is Ethical Behaviour?

Ethical behaviour is conduct that conforms to ethics—individual beliefs and social standards about what is right and good.

Values tell us what is important. They help us make decisions about right and wrong.

Morals are rules we use to decide what is good or bad.

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Business Ethics

What Role Should Ethics Play in Business?

Business ethics are based on society's ethics and those of the people who work for and buy from them.

A Code of Ethics

Some companies write a **code of ethics**, a document that explains specifically how employees should respond in certain situations.

Canadian laws address acceptable business behaviours. However, businesses can still behave unethically without breaking these laws.

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How Can Businesses Resolve Ethical Dilemmas?

A **dilemma** is a situation where a difficult choice must be made between two or more options.

An **ethical dilemma** is a moral problem with a choice between potential right and wrong. Some questions to consider are

- Who will be helped by what you do?
- Who will be hurt by what you do?
- What are the benefits and problems of such a decision?
- Will the decision survive the test of time?

Whistle-blowing

Whistle-blowing happens when an employee informs officials or the public about an illegal or ethical violation.

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What Happens When People Do Not Behave Ethically?

When an individual acts unethically, his or her behaviour will most likely harm others. The individual could also be sent to jail for his or her actions. Major ethical issues include fraud, accounting scandals, and insider trading.

Fraud

Fraud is a crime of lying or pretending. Some businesses mislead consumers and trick them to buy their products or services. *The Competition Act 2002* bans such fraud and deceptive business practices and defines these as

- false or misleading advertising
- “bait and switch” selling
- double ticketing items for sale

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Accounting Scandals

An **accounting scandal** occurs when accountants or senior executives alter accounting records for personal benefit.

Accounting information is used inside and outside of the business to make decisions. When accounting irregularities are uncovered, a **forensic accountant** investigates legal and financial documents to find evidence of tampering.

Embezzlement, a type of accounting fraud, happens when an accountant or senior executive creates false accounts and redirects money into them for personal gain.

Business owners rely on outside accountants, **auditors**, to check and report on the validity of financial records.

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Insider Trading

Insider trading is buying or selling shares of a company based on confidential information. This type of trading is illegal.

Prosecution for insider trading falls under the **provincial securities commissions**. Punishment includes

- fining the individual(s) for up to \$1 million
- turning over all profits from trading
- incarcerating the person(s) for up to two years
- being banned from future trading in securities

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Ethics and Corporate Social Responsibility

A business exhibits **corporate social responsibility (CRS)** through their values, ethics, and the contributions it makes to communities. CRS is driven by a desire to protect customers and to treat employees and shareholders fairly.

CSR Principles

Businesses that practice CSR principles support their employees and consumers by

- providing a safe and healthy work environment
- adopting fair labour policies
- protecting the environment
- being truthful in advertising
- avoiding price discrimination
- donating to charity



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Duty to Report

Corporations and their employees have a **duty to report**, which means they must disclose all important information to shareholders, partners, lenders, insurers, communities, regulators, consumers, employees, and investors.

Laws that Govern Corporate Ethics

Workplace Safety

The *Occupational Health and Safety Act* (OHSA) of Ontario defines the rights and responsibilities of employees in their workplace to ensure their safety and health. These regulations were put in place to remind companies that it is not only important to focus on making profits, but also equally imperative to look after the safety and health their workers.

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Anti-discrimination Issues

Discrimination is denying a qualified individual an interview, job, or promotion based on his or her religion, gender, sexual orientation, or physical disabilities.

Gender discrimination is treating an employee differently based on their sex (male or female).

The **glass ceiling** refers to invisible barriers that may affect the career path of senior leaders in corporate positions.

Harassment

Many businesses have policies and procedures for dealing with **harassment**: behaviour that is threatening, disturbing, or makes others feel uncomfortable.

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Accessibility Issues

The **duty to accommodate** refers to an employer's obligation to ensure accessibility for all employees. The *Canadian Human Rights Act*, Sections 2 and 15, states that employees with disabilities must be accommodated by business as long as undue hardship does not occur to the business.

Environmental Responsibility

Environmental concerns for business include the Earth's air, land, and water. These issues affect Canadian businesses and others in the world.

Environmental Protection Act

The Canadian Environmental Protection Act 1999 was the response of Environment Canada to the environmental disaster of the Exxon Valdez.

Kyoto Protocol

Canada signed the *Kyoto Protocol* in 1998 that states countries must reduce carbon dioxide emissions by 2012 (five percent less than in 1990).

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Business and the Environment

The way businesses respond to environmental concerns and laws tells us about their ethics or commitment to doing what is right.

Business is like a three-legged stool: each leg stands for a different goal. (See illustration on page 101 in the text.)

Business Goals

- First leg: financial goals
- Second leg: environmental goals
- Third leg: social goals

 **Problem:** Corporate resources spent on environmental and social goals never equal what is spent trying to generate profits (financial goals).

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Social Responsibility

Labour Practices

In BC, the *Employment Standards Act* addresses the minimum employment conditions including

- hours of work
- overtime pay
- minimum wage
- holidays
- vacations
- equal pay for male and female employees
- employee benefit plans
- pregnancy, parental, and other leaves of absence
- notice of termination of employment
- severance and termination pay

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Pay Equity

Although pay equity legislation has changed considerably since its establishment in 1978, it still does not always deliver equal pay for work of equal value. The legislation prohibits employers from paying employees of one sex differently than from the other when the same or substantially the same work is done.

Privacy Laws

The Personal Information Protection and Electronic Documents Act (January 1, 2004) requires all provincially regulated businesses to explain what personal information they need from employees or customers and why they need it.

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Fair Trade

Fair trade is the voluntary practice of helping producers in developing countries bypass expensive middlemen so they can sell their goods in other countries for a fair profit.

A **grassroots movement** starts out as the local action of or response by a group of people to a problem: the movement develops from the bottom up, not from the top down. For example, the fair trade initiative began with partnerships between farmers in less-developed countries and aid organizations (bottom up) to help them reach markets in Europe and North America (top down).

Fair-trade products are marked with logos such as the non-profit organization's **TransFair Canada** symbol. Ethical trading means using trade to ensure that the basic labour rights of employees in other countries are respected.