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Chapter 2

Business Ethics and Responsibility: Doing Well by Doing Good

Homework

Multiple Choice Questions

1. What are among the most challenging issues faced by individuals and companies that are involved in the international business?

   a. Finding qualified works and management

   b. Safe working conditions and health care

   c. Bribery and corruption

   d. Wages and living conditions

   ANS: c

2. Why is McDonald's so concerned with both reducing its amount of garbage and recycling the garbage it does create?

   a. It wants to reduce its carbon footprint.

   b. It has embraced the idea of sustainable development.

   c. It wishes to practise green marketing.

   d. It practises cause-related marketing.

   ANS: b

3. The consumerism movement has resulted in consumers getting which of the following rights?

   a. The right to own property

   b. The right to profit

   c. The right to vote

   d. The right to be informed

   ANS: d

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Fill in the Blank Questions

1. When a company donates its employees' time to work on community activities, it is practising _____, but when a company allows its employees to take time to accommodate their personal needs, it is practising _____.

   ANS: corporate philanthropy; corporate responsibility

2. A social audit is focused on the "double bottom line," which takes into consideration such traditional indicators as _____ and socially responsible indicators such as _____.

   ANS: profitability; community involvement

3. If two pharmaceutical companies were to collaborate to establish low prices on drugs in low-income countries, thus saving lives, their behaviour would be _____; however, if those same companies used workers in low-income countries to produce those drugs but paid them a non-living wage, their behaviour would be _____.

   ANS: iilegal and ethical; legal and unethical

Drag and Drop Questions

1. The amount of harmful greenhouse gasses that a firm emits throughout its operations is referred to as its _____.

   _____ focuses on the actions of the business itself rather than donations of money and time.

   Doing business to meet the needs of this generation without harming the ability of future generations is _____.

   _____ includes all business donations to not-for-profit groups, including both money and products.

   ANS: carbon footprint; corporate responsibility; sustainable development; corporate philanthropy

2. _____ are core values that transcend political, religious, class, and ethnic divisions.

   _____ are a set of beliefs about right and wrong.

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_____ are ethical standards that shift depending on particular individuals and the specific situations they face.

When a person believes it is wrong to steal a pen from Walmart, but that it is okay to take one home from work, he or she has a(an) _____ issue.

ANS: universal ethical standards; ethics; relative ethics; business ethics

3. When a company forms a partnership with a not-for-profit firm to raise money for that organization, the company is considering its responsibility to its _____.

   When a company has decided it will not deliberately design products to fail in order to shorten repurchase times, the company is considering its responsibility to its _____.

   When the company CEO has decided that all business air travel will be by economy class, the company is considering its responsibility to its _____.

   A company that has a very strong and comprehensive harassment policy, is a company that considers its responsibility to its _____.

   ANS: community; customers; investors; employees

4. _____ are the cornerstone of any formal ethics program.

   Personal needs, family, culture, and religion all influence employees' _____.

   _____ have more influence than any other variable on the ethical conduct of individuals in organizations.

   An effective corporate ethics program will provide support for any _____.

   ANS: codes of ethics; value systems; organizational culture; whistleblowers

Quiz Answers

1. b
2. b
3. c
4. a
5. b
6. d
7. c

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8. b
9. b
10. a
11. c
12. d
13. b
14. c
15. a
16. b
17. a
18. b
19. b
20. d

Video Case: Zappos Employees Do More Than Sell Shoes

Critical Thinking Questions

1. Briefly explain how Zappos has implemented social responsibility programs into its business.

   ANS:

   Zappos believes in working for the greater good and giving back to the community. It engages in activities with charitable organizations to foster social responsibility and has developed relationships with charitable organizations to further causes such as education, cancer awareness, and poverty alleviation. For example, Zappos has partnered with "Goody Two Shoes," a charitable organization that gives new shoes to students in need. It has partnered with several of its vendors to supply shoes for these students.

2. How have charitable giving and volunteer engagement programs helped Zappos foster social responsibility?

   ANS:

   With industrialization, the quality of ice creams went downhill as the quantity volume of production increased. However, Graeter's refused to compromise on quality and stuck to its way of making ice creams. At a time when other ice cream companies focused on volume, Grater's churned out dense ice creams with very little air in them, ensuring this by packing the ice cream by hand. The company

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does not engage in mass production and has created a unique position in the market for frozen desserts because of its emphasis on quality

3. Describe the effect of Zappos' social responsibility programs on employee morale.

   ANS:

   Zappos employees enjoy coming together for social activities. These activities foster team building. There is a sense of camaraderie and strong bonds are created among employees. Employees are motivated to do things for the greater good.

MindTap Questions

1. What is the reasoning behind Zappos starting a corporate social responsibility program?

   a. The company does it because it feels it is the right thing to do.

   b. The company does it because it helps the business grow.

   c. The company does it because federal governmental regulations require it.

   d. The company does it because it provides the firm with good publicity.

   ANS: a

   A business's involvement in social responsibility depends on its values, mission, resources, and management philosophy.

2. How has Zappos helped the surrounding community as part of its social responsibility?

   a. It is paying local corporate taxes that are used to build up the surrounding area.

   b. It has invested in the surrounding infrastructure.

   c. It has invested only in its own core business.

   d. It has invested in other businesses in the area.

   ANS: b

   Beyond increasing everyone's standard of living, businesses can contribute to society through corporate responsibility, actions that have a positive impact on the community, beyond donations of money and time.

3. Where on the spectrum of social responsibility would you position Zappos? Explain?

   ANS:

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Zappos clearly belongs at the proactive contributions end of the spectrum. It has chosen to integrate social responsibility into its strategic plans, making contributions as part of its business goals.

4. Provide an example of how Zappos has been involved in a cause-related marketing program.

   ANS:

   Zappos has partnered with Goodie Two Shoes, a charitable organization, to provide shoes and socks to children in need.

Online Case

Case Connection 2-1: Flushing Grandpa

Critical Thinking Questions

1. Given the increased alternatives for burial today, what method would you prefer for disposing of the bodies of your loved ones? Why?

   ANS:

   Student preferences will certainly vary, and may do so very much based on religious beliefs. Some students might be very environmentally conscious, but still hold to more traditional burial practices.

2. Identify the pros and cons of this new business.

   ANS:

   Pros:

   - *cost*
   - *being environmentally friendly*

   Cons:

   - *social acceptance*
   - *government regulation may be a problem*

3. While this new form of burial is much better for environmental sustainability, what dimension of the environment of business will pose the greatest challenge for anyone trying to operate this new business? Explain.

   ANS:

   Some students may suggest that government regulation will pose the greatest threat to the business. Governments at both the municipal and provincial levels may have concerns. However,

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given that it is now acceptable in three provinces and eight U.S. states, it will likely gain increased approval as it becomes more common, and as it becomes increasingly popular.

The social environment will probably be the biggest are of concern as many people will be opposed to this practice, some for religious reasons, and some simply because it just might not seem right to "flush" grandpa. However, if one of the earliest suppliers of this service was able to sell over 200 services in the first full year of operations, it is likely that there will be sufficient demand to make the business profitable.

As demand grows, the competitive environment may also pose a challenge. Currently, people who wish this service have few places to get it. If it becomes a popular method of body disposal, a growing number of funeral homes will offer it. It is very cost effective for those who purchase the service, and likely very high margin for the funeral home that provides it as, beyond an initial investment in capital equipment, there will be very little cost per service.

MindTap Questions

1. Which of the following is not an advantage of bio-cremation compared to traditional cremation?

   a. It can easily recover surgical hardware.

   b. It is a much faster process.

   c. It consumes less energy.

   d. It has less remaining material at the end of the process.

   ANS: d

2. Which of the following is a major advantage of bio-cremation?

   a. It completely dissolves a body so there are no remains.

   b. It is a "greener" alternative than most methods of body disposal.

   c. It is available across Canada through most funeral homes.

   d. Its carbon footprint is about the same as for a traditional cremation.

   ANS: b

3. What indications are there that bio-cremations will become an attractive alternative to burial in the future?

   ANS:

   In just over a year, it has become legal in three Canadian provinces, including the country's two largest. The first company to offer this service in Ontario performed approximately 200 services in its first year. (Smiths Falls has a population of about 9000 people, so obviously, people are travelling from outside the immediate area for this service.)

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4. Is bio-cremation a legal or an ethical issue? Explain.

   ANS:

   This is a legal issue, not an ethical one. Provincial governments must approve this form of body disposal, but then municipal governments are also involved, for the affluent from the process flows into municipal waste-water systems.

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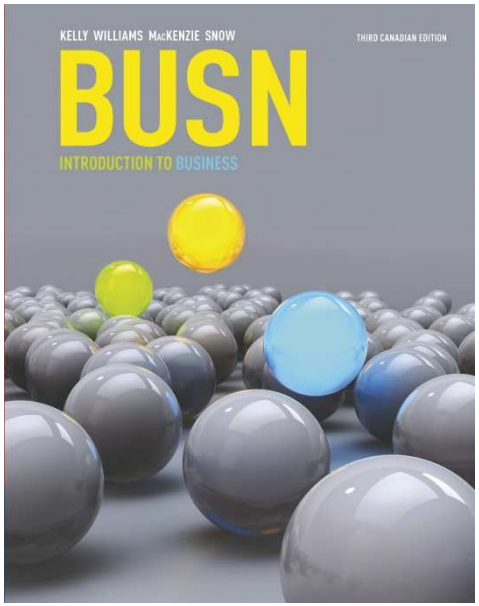

Appendix 2: Business Law

Looking Ahead

A2-1 Explain the purposes of laws and identify the major sources of law in Canada.

A2-2 Describe the characteristics of a contract and explain how the terms of contracts are enforced.

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Looking Ahead

A2-3 Describe how both title and risk pass from seller to the buyer when a sale occurs.

A2-4 Provide an overview of the legal principles governing agency, intellectual property, and bankruptcy.

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A2-1 The Purpose and Origin of Laws

Laws – the rules governing the conduct and actions of people within society that are enforceable by the government; business and civilization could not function without the rule of law

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The Purpose and Origin of Laws

- Promote stability and order
- Protect individuals from physical or mental harm
- Protect property from damage or theft
- Promote objectives and standards of behaviour that society deems desirable
- Discourage objectives and standards of behaviour that society deems undesirable

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Sources of Law

Constitutional law – the Canadian Constitution is the supreme law of the land and laws cannot be in conflict to the Constitution

Administrative law – laws established by government agencies

Statutory law – acts, statutes, or bylaws passed by appropriate government bodies

Common law – also known as case law, arises from court decisions; Quebec is governed by civil code

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Federal, Provincial, and Municipal Regulatory Agencies

Agency (F = federal; P = provincial; M = municipal)	Major Goal of Regulation
Canadian Transportation Agency (F)	Manages dispute resolution and economic regulation in the Canadian transportation industry
Canadian Radio-television and Telecommunications Commission (F)	Regulates and supervises all aspects of the Canadian broadcasting system
Canadian Wheat Board (F)	Markets wheat and barley for the best possible price within Canada and internationally on behalf of more than 75 000 Western Canadian farmers

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Federal, Provincial, and Municipal Regulatory Agencies

Nova Scotia Liquor Commission (P)	Regulates alcoholic beverage distribution and sales in Nova Scotia
Law Society of British Columbia (P)	Sets and enforces standards of professional conduct for lawyers in British Columbia
Manitoba Securities Commission (P)	Protects investors and promotes fair and efficient investment business practices throughout Manitoba
Halifax Zoning Board of Appeals (M)	Hears appeals concerning denials of permit applications

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Civil Law versus Criminal Law

- **Civil law** – disputes between private citizens
  - Breach of contracts or torts – a tort is a private wrong that results in physical or mental harm
  - Intentional torts arise from willful acts
  - Negligence arises from unintentional acts
- **Criminal law** – involves cases where the Crown investigates and prosecutes individuals who have harmed society

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Differences between Civil and Criminal Law

	Civil Law	Criminal Law
Nature of action and parties involved	Lawsuits to settle disputes between private individuals	Prosecution of parties charged with wrongdoings against society
Examples of cases	Intentional torts such as slander, libel, invasion of privacy, wrongful death; unintentional torts arising from negligence; breach of contract	Felonies such as robbery, theft, murder, arson, identity theft, extortion, embezzlement; also less-serious crimes, called misdemeanours
Possible outcomes	Liable or not liable	Guilty or not guilty

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Differences between Civil and Criminal Law

	Civil Law	Criminal Law
Standard of proof	Preponderance of evidence	Proof beyond a reasonable doubt
Goal of remedy	Compensate injured party	Punish wrongdoer
Common remedies	Monetary damages	Fines and/or imprisonment

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A2-2 Contracts: The Ties That Bind

Contract – an agreement that is enforceable in a court of law; contracts do not have to be formal and the courts may decide that a contract exists because of behaviour that indicates a contract

Express contract – a contract that is explicitly spelled out in writing or words

Implied contract – a contract based on behaviour

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What Makes a Contract Enforceable?

- There must be mutual assent.
- Both parties must offer consideration.
- The parties must have legal capacity to enter the contract.
- The contract must be for a legal purpose.
- Some contracts **must** be in writing.

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What Happens When a Party Fails to Satisfy the Terms of a Contract?

When one of the parties fails to satisfy the terms of an agreement, the injured party must seek a remedy by suing in civil court.

Compensatory damages – monetary payments the party who breached the contract must pay to compensate the injured party

Specific performance – requires the party who breached the contract to do exactly what the terms of the contract state

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A2-3 Sales: Transferring Ownership

A **sale** occurs when title (legal ownership) to a good passes from one party to another in exchange for a price.

Title passes when the seller's performance of duties has been completed as outlined in the contract.

The contract specifies who bears the **risk** of loss, damage, or theft during transfer; if the contract is silent to the issue, it may defer to the party with insurance.

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A2-4 Other Legal Principles: Agency

Agency – when one party, called the principal, gives another party, the agent, the authority to act for the principal

Agent's scope of authority – the extent to which the agent has authority to represent the principal

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Other Legal Principles: Agency

Duties of the principal – include loyalty, performance, notification, obedience, and accounting	**Duties of the agent** – include compensation, reimbursement, indemnification, safe working conditions, and cooperation

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Other Legal Principles: Intellectual Property

Intellectual property – the right of an inventor, innovator, writer, or artist to own their creations and prevent copying

Patents – legal monopoly over an invention

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Other Legal Principles: Intellectual Property

Trademarks – a distinctive mark, symbol, word, phrase, or motto used to identify a company's goods

Copyrights – exclusive rights to own, produce, copy, and sell creative works, and to license others to do so

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Other Legal Principles: Bankruptcy

Bankruptcy – allows debtors to discharge their debts and get a fresh start; initiated voluntarily by debtors or involuntarily by creditors, with the goal always being the fair treatment of all parties

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Other Legal Principles: Bankruptcy

- **Trustee in bankruptcy** – person who holds legal responsibility for administering the affairs of a bankrupt company
- **Proposal** – contractual agreement between an insolvent debtor and creditors that would allow the debtor to reorganize and continue operations
- **Petition** – statement of what a creditor owes

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Other Legal Principles: Bankruptcy

- **Receiving order** – officially declares a creditor as bankrupt and transfers asset control to the trustee
- **Proof of claim** – formal notice by a creditor of what is owed and the nature of the debt

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Looking Back

- What is the purpose of laws and what are the major sources of law in Canada?
- What are the characteristics of a contract and how are the terms of a contract enforced?

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Looking Back

- How do title and risk pass from seller to buyer when a sale occurs?
- What are the legal principles governing agency, intellectual property, and bankruptcy?

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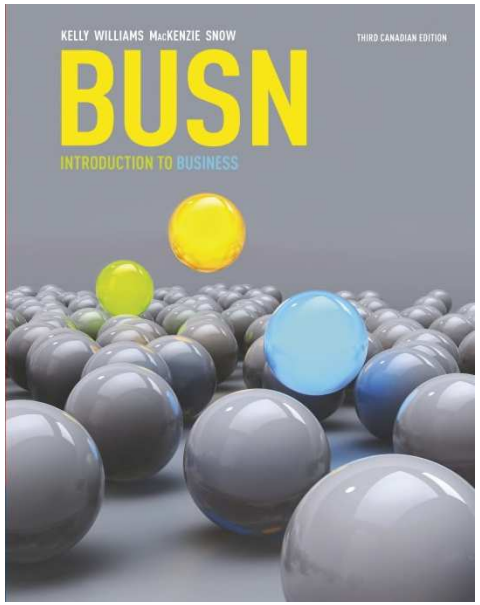

Chapter 2: Business Ethics and Social Responsibility

Doing Well by Doing Good

Looking Ahead

2-1 Define ethics and explain the concept of universal ethical standards.

2-2 Describe business ethics and ethical dilemmas.

2-3 Discuss how ethics relates to both the individual and the organization.

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Looking Ahead

2-4 Define social responsibility and examine the impact on stakeholder groups.

2-5 Explain the role of social responsibility in the global arena.

2-6 Describe how companies evaluate their efforts to be socially responsible.

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2-1 Ethics and Social Responsibility

Ethics – beliefs about right and wrong

Social responsibility – the obligation of a business to contribute to society

A close relationship, but not the same

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Ethics: Murkier Than You Think

Exhibit 2.1 Legal–Ethical Matrix

LEGAL AND UNETHICAL	LEGAL AND ETHICAL
Promoting high-calorie/low-nutrient foods with inadequate information about the risks.	Producing high-quality products.
Producing products that you know will break before their time.	Rewarding integrity. Leading by example.
Paying non-living wages to workers in developing countries.	Treating employees fairly. Contributing to the community. Respecting the environment.
ILLEGAL AND UNETHICAL	**ILLEGAL AND ETHICAL**
Embezzling money.	Providing rock-bottom prices *only* to distributors in underserved areas.
Engaging in sexual harassment.	Collaborating with other medical clinics to guarantee low prices in low-income countries (collusion).
Practising collusion with competitors.	
Encouraging fraudulent accounting.	

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Universal Ethical Standards

Exhibit 2.2 Universal Ethical Standards[1]

TRUSTWORTHINESS	Be honest. Don't deceive, cheat, or steal. Do what you say you'll do.
RESPECT	Treat others how you'd like to be treated. Be considerate. Be tolerant of differences.
RESPONSIBILITY	Persevere. Be self-controlled and self-disciplined. Be accountable for your choices.
FAIRNESS	Provide equal opportunity. Be open-minded. Don't take advantage of others.
CARING	Be kind. Be compassionate. Express gratitude.
CITIZENSHIP	Contribute to the community. Protect the environment. Cooperate whenever feasible.

Source: Hanson, W. (ed)., *Making Ethical Decisions*, Josephson Institute, 2012. CHARACTER COUNTS! and The Six Pillars of Character are registered trademarks of the Josephson Institute of Ethics. ©2011 Josephson Institute. Reprinted from *Making Ethical Decisions* with permission. www.josephsoninstitute.org.

Universal ethical standards – developed by **Character Counts**, a non-partisan organization of educators, community leaders, and ethicists

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2-2 Business Ethics: Not an Oxymoron

Ethical dilemma – negative consequences; two unfavourable options

The most challenging business decisions seem to arise when values are in conflict.

Ethical lapse – clear misconduct

Business ethics – the application of right and wrong in the workplace

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2-3 Ethics: Multiple Touchpoints

Individuals must make their own ethical choices, but the organization can have a significant influence on decisions.

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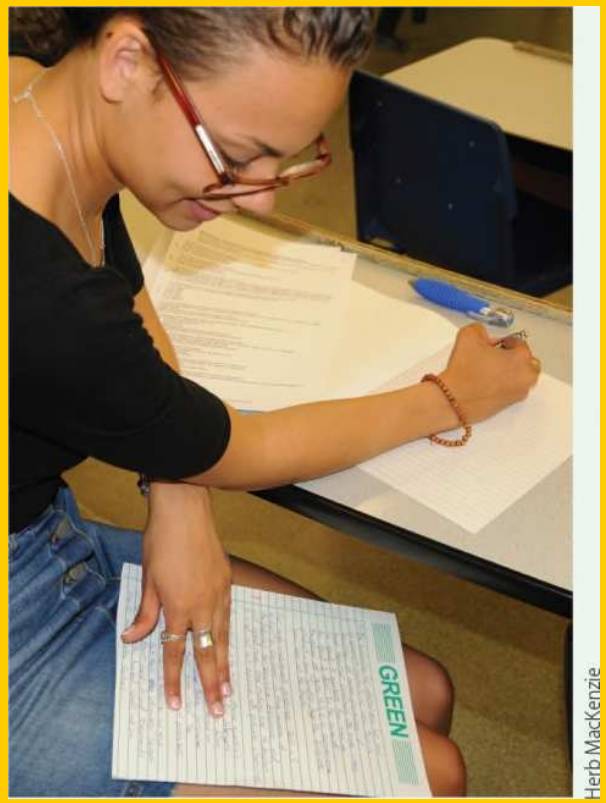
Ethics and the Individual: The Power of One

Framework for ethical decisions:

1. Do you fully understand each dimension of the problem?
2. Who would benefit? Who would suffer?
3. Are the alternative solutions legal? Are they fair?
4. Does your decision make you comfortable at a “gut feel” level?
5. Could you defend your decision on the nightly TV news?
6. Have you considered and reconsidered your responses to each question



Herb MacKenzie

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Ethics and the Organization: It Takes a Village

- Ethical influence starts at the top.
- Actions matter more than words.
- The appearance of shaky ethics can be deeply damaging.
- "CEOs in particular must communicate their personal commitment to high ethical standards and consistently drive the message down to employees through their actions."

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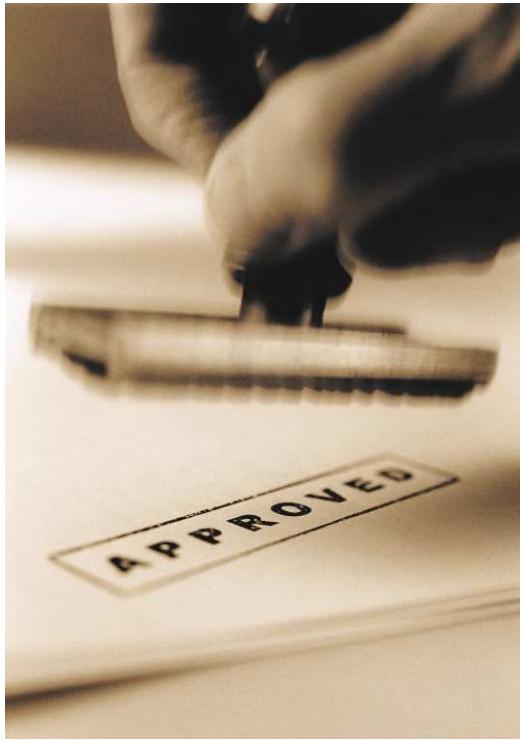
Creating and Maintaining an Ethical Organization



- Organizational culture
- Role of top management
- Code of ethics:
  1. Executive buy-in
  2. Clear expectations
  3. Integrated approach
  4. Global and local
  5. Whistleblower support
  6. Reporting and enforcement

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Ethics at Work: How Would You Judge the Actions of These Business Leaders?

- Microsoft CEO Bill Gates and his wife established the Bill & Melinda Gates Foundation, promoting health, education, and development around the world.
- Whole Foods CEO John Mackey posted thousands of comments on Yahoo! Finance, hyping his company and attacking Wild Oats, a competitor he was planning to purchase.

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Ethics at Work: How Would You Judge the Actions of These Business Leaders?

- Chris Spence resigned from being the director of the Toronto District School Board for plagiarizing speeches, blogs, and newspaper articles.
- Martin Shkreli, CEO of Turing Pharmaceuticals, raised the prices for a cancer drug by 5000% after they acquired marketing rights for the drug.

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Ethics at Work: How Would You Judge the Actions of These Business Leaders?

- Sylvie Therrien blew the whistle in 2013 when the government forced her to meet aggressive savings quotas aimed at reducing payments to EI claimants.
- Former Prime Minister, Brian Mulroney, accepted cash from a German businessman, placing it in a home safe and a New York safety deposit box.

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2-4 Defining Social Responsibility: Making the World a Better Place

Social responsibility – the obligation of a business to contribute to society

Stakeholders – any groups that have a stake, or a personal interest, in the performance and actions of an organization

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Capitalism with a Conscience

- The gains in wealth, health care, education, and technology have not been evenly spread.
- Half of the world's population lives on less than $2 per day.
- 94% of the world's earnings go to 40% of the people.
- Bill Gates has called for a new approach to economics: creative capitalism.

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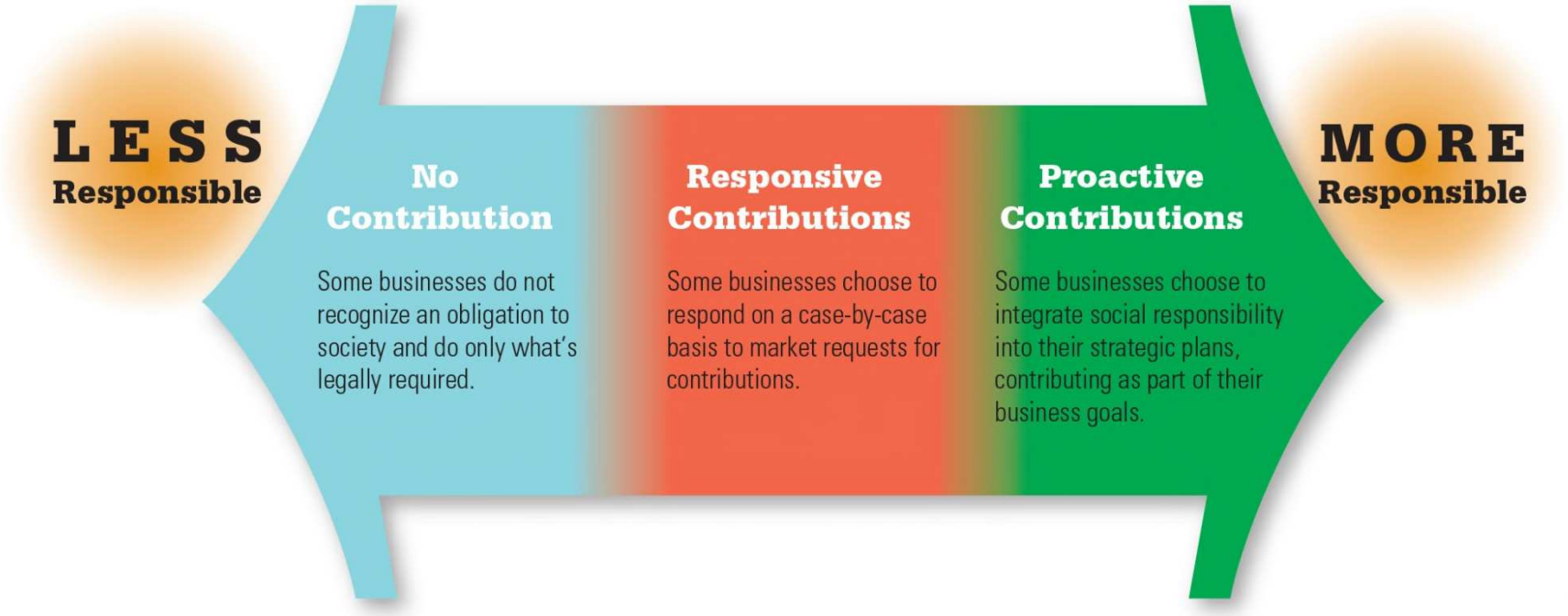
The Spectrum of Social Responsibility

Exhibit 2.4 The Spectrum of Social Responsibility



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Social Responsibility at Work: How Would You Judge the Actions of These Firms?

Exhibit 2.5 Social Responsibility at Work

How would you judge the actions of these firms?[18]

THE CLOROX COMPANY	TIM HORTONS
Clorox introduced a line of "99% natural" cleaning products called Green Works. This is the first such effort from a major consumer products company and the first time that the Sierra Club has endorsed a product line by allowing the use of its logo on the labels. In return, Clorox makes an annual contribution to the Sierra Club, the amount based on total Green Works sales.	In 2016, Tim Hortons announced that it will exclusively use eggs produced by cage-free hens by 2025, throughout its North American operations. Currently, over 90 percent of hens used for eggs are crammed into battery cages: cages so small they cannot walk, spread their wings, or perform other natural behaviours. Many such hens become mangled and are often left in their cages after death. Battery cages were banned in the European Union and several US states. Many other popular fast food restaurants have recently made similar announcements.
VOLKSWAGEN AG	**ORNGE**
The world's second largest automobile manufacturer was caught using "cheat devices" on its cars to mask the extent of emissions during laboratory tests. As many as 11 million vehicles worldwide were affected. North American head Michael Horn blamed "a couple of software engineers" for the fraud. Stockholm entrepreneur and Audi A6 owner Linus Elmgren has a different view: "They've cheated the whole world and their sense of regret has been insufficient in my mind."	ORNGE, Ontario's air ambulance service, has been involved in suspicious activity almost since its inception. The agency established a complex web of private businesses and redirected monies to them over several years. In addition, following the purchase of 12 helicopters from an Italian supplier for $144 million—financed by Ontario taxpayers—one of the private businesses got a contract from the helicopter supplier for $6.7 million to research other potential global markets for air ambulance services. Key employees involved in the questionable research: the girlfriend of the ORNGE founder and the daughter of the ORNGE chairman.
KRAFT	**SNC-LAVALIN**
As obesity among kids spirals out of control, Kraft has taken a brave stand: a pledge to stop advertising unhealthy—yet highly profitable—foods to young children. Kraft also plans to eliminate in-school marketing and drop some unhealthy snacks from school vending machines. As the king of the food business, Kraft has chosen what's right for kids over what's right for its own short-term profits.	Canada's largest construction and engineering firm is missing $56 million. Reports are that the monies were secretly funnelled to Libya's Gaddafi family. CEO Pierre Duhaime breached the company's code of ethics and approved the payments after two other company executives refused to do so. Duhaime stepped down in 2012—or, according to SNC-Lavalin, retired—and has taken a $4.9 million package that was promised in his employment contract.

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Responsibility to…

Employees	Creating jobs that work
Customers	Values, honesty, and communication
Investors	Fair stewardship and full disclosure
Community	Business and the greater good
Environment	Sustainable development

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Responsibility to Employees: Creating Jobs That Work

- Meet legal standards
- Provide workplace safety
- Meet minimum wage/ overtime requirements
- Value employees
- Provide work/life balance

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Responsibility to Customers: Value, Honesty, and Communication

Consumerism – the right to be safe, the right to be informed, the right to choose, and the right to be heard

Planned obsolescence – deliberately designing products to fail in order to shorten the time between purchases

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Responsibility to Investors: Fair Stewardship and Full Disclosure

- Legal requirements: *Sarbanes-Oxley Act*
- Responsible use of corporate dollars
- Honesty
- Is optimism or pessimism socially responsible?

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Responsibility to Community: Business and the Greater Good

Corporate philanthropy – business donations to non-profit groups, including both money and time

Cause-related marketing – partnerships between businesses and non-profit organizations, designed to spike sales for the company and raise money for the non-profit

Corporate responsibility – the actions of the business rather than donations of money and time

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Responsibility to the Environment: Sustainable Development

Sustainable development – doing business to meet the needs of this generation without harming the ability of future generations

Carbon footprint – amount of harmful greenhouse gases that a firm emits

Green marketing – marketing environmental products and practices for competitive advantage

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Choosing Between a Loaf of Bread and a Packet of Shampoo

C.K. Prahalad believes that companies could add to the global economy by providing small luxuries to those at ***"the bottom of the pyramid."***

Critics suggest that this strategy is exploitation.

What do you think?

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2-5 Ethics and Social Responsibility in the Global Arena: A House of Mirrors?

- Corruption is part of the culture in many countries (e.g., bribes and gifts).
- Labour issues in host countries can be complicated (e.g., living wage, child labour).

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2-6 Monitoring Ethics and Social Responsibility: Who Is Minding the Store?

Social audit – a systematic evaluation of how well a firm is meeting its ethics and social responsibility objectives

1. Establish goals
2. Determine how to measure the achievement of those goals

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Looking Back

- What is ethics? Business ethics? What are the universal ethical standards?
- What are ethical dilemmas?
- How does ethics relate to individuals and the organization?

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Looking Back

- What is social responsibility and what is its impact on stakeholders?
- What is the role of social responsibility in the global arena?
- How do companies evaluate their efforts to be socially responsible?

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