



**CHAPTER 3**

# **Business Ethics and Social Responsibility**

## **SPECIFIC EXPECTATIONS**

After completing this chapter, you will be able to

- explain the concepts of ethics and social responsibility as they apply to business
- assess ethical dilemmas in the workplace
- explain controversial business issues from a local, national, and international perspective
- describe the impact of business on a local community

## PROFILE

### Kicking Horse Coffee Co.

Leo Johnson and Elana Rosenfeld are the husband and wife team responsible for the creation and production of Canada's number one organic and fair-trade coffee company, Kicking Horse Coffee Co. Founded in 1996 and located in the Canadian Rockies in the British Columbia town of Invermere (population 3600), the company employs fifteen people. Even though the location is remote, and the number of staff is small, Kicking Horse Coffee Co. manages to sell more than 10 000 kg of coffee each week to grocery stores throughout Canada, the United States, and Holland. Revenue projections for 2006 are \$10 million from the company's sales of thirty different blends of organic and fair-trade coffee, organic and fair-trade teas, and organic chocolate. (Organic products are produced naturally, without pesticides or additives. Fair-trade products come from farmers in disadvantaged countries. These products are brought to European and North American markets through aid organizations or co-operatives, not middlemen, ensuring that the farmers do not have to accept unfair prices in order to sell their products internationally.)

In 2003, the couple was awarded the Young Entrepreneurship Award for British Columbia by the Business Development Bank of Canada in recognition of the success of Kicking Horse Coffee Co. So, what is the secret to (and story of) the Kicking Horse Coffee Co.'s success?

Elana (born in Toronto) and Leo (born in Fredericton) first met in British Columbia. Together and separately, they had worked in restaurants, opened a fruit stand, and

purchased and operated a café. In fact, the idea of Kicking Horse Coffee Co. came about because the couple had difficulties obtaining organic coffee, which they wanted to serve in their café. Specifically, Elana and Leo wanted to remain true to their ethical principles while providing coffee to their customers.

So began the Kicking Horse Coffee Co., a company founded on ethical beliefs that included promoting market interest in organic and fair-trade coffee.

The fair-trade feature means that Kicking Horse Coffee Co. purchases their organic coffee beans from small business co-operatives (co-ops). As explained in previous chapters, co-ops are businesses that are both owned and operated by the individuals who supply the product. Members of the co-ops (such as the coffee-bean farmers) are able to negotiate for prices that give them a higher standard of living. In addition to providing individuals with

a better standard of living, the fair-trade requirements for coffee production state that certain environmental standards, which include restricting the use of potentially harmful agrochemicals, must be followed. Elana and Leo not only import their raw, organic coffee beans from countries such as Sumatra, Nicaragua, and Cuba, they also visit their producers' plantations to see for themselves the benefits that fair trade can bring to farmers.

In choosing to operate in the organic fair-trade coffee market, the founders were able to both

uphold their ethical beliefs without compromise and select a market niche that had yet to be saturated with competing entrepreneurs. Indeed, the couple spotted an opportunity for organic and fair-trade coffee in the grocery-store market and pursued it. Now, they are represented in distribution outlets including Thrifty Foods, Canada Safeway Ltd., IGA, Save-On Foods, Urban Fare, and Loblaws. In addition to grocery stores, Kicking Horse coffee is also available for online purchase directly from the Kicking Horse Coffee Co. website.



Two of Kicking Horse's fair-trade coffees

## QUESTIONS

1. How is Kicking Horse Coffee Co. different from its competitors? Why is it important to Elana and Leo that these differences be incorporated into their business operation?
2. What benefits has Kicking Horse Coffee Co. gained from its decision to sell organic and fair-trade products? Who else benefits from this decision? How?

# Business Ethics

What would you do in each of the following situations?

1. Your friend asks you to add a few extra hours to a work time sheet for him, but you know that he did not put in the time.
2. A salesperson in an electronics store offers to sell you an iPod after hours at a discounted price.
3. You are aware that the teller gave you back too much money when completing a banking transaction.

**Ethics** are the rules that help us tell the difference between right and wrong and encourage us to do the right thing. They can help people decide on the best course of action in situations where they aren't sure what to do.

## What Is Ethical Behaviour?

Ethical behaviour is behaviour that conforms to ethics—individual beliefs and social standards about what is right and good. Ethics are important for getting along with others, living with yourself, and having a good character. Ethical behaviour is based on values such as trustworthiness, respect, responsibility, caring, justice, and good citizenship, and on adherence to moral rules. Our **values** tell us what we think is important and this, in turn, helps us make decisions about right and wrong. For example, a person who values trustworthiness is unlikely to betray a friend. **Morals** are the rules we use to decide what's good and what's bad. For example, one moral rule might be that stealing is bad because it harms the person you steal from.

As a society, we tend to judge people more on their morals than their values. In fact, some of the most difficult decisions to make are the ones in which our personal values conflict with our moral rules. When we make decisions that run counter to our values and morals, and do things that our individual beliefs and social standards define as being bad or wrong, we are demonstrating unethical behaviour.

Let's examine the first situation described earlier—adding a few extra hours to your friend's time sheet. In this situation, there are two choices—either to add the extra hours or not to add them. If you add a few hours to a time sheet, your friend will get paid for work that he did not perform. Who wins and who loses with this choice? Would a decision like that bother you?

### Keep in Mind

1. what is ethical behaviour?
2. what role should ethics play in business?
3. how can businesses resolve ethical dilemmas?
4. what happens when people don't behave ethically?

### Before You Begin

**What do the terms values, morals, and ethics mean to you? Share your thoughts with a partner and record your opinions so that you can reflect on them later.**

### Stretch Your Thinking

**Author Isaac Asimov once stated, "Never let your sense of morals get in the way of doing what's right." State in your own words what you think Asimov meant.**



A shopper reads nutrition information in order to decide on the best product.

What happens if your friend asks you to do the same thing again in the future?

On the other hand, if you don't add the hours to the time sheet, your friend may be angry with you. Is that important to you? What are the possible consequences?

Your values and morals both tell you that dishonesty is wrong. Consider the amount of harm that could result from your decision. If you add the hours, the company will be harmed because it has to pay money without receiving any benefit in return. There will also be harm to you or your friend if someone finds out what you did. You could lose your jobs! Is it worth the risk? Ethical behaviour is all about doing the right thing.

## **What Role Should Ethics Play in Business?**

Ethics are based on both individual beliefs and standards in society. They vary from person to person, situation to situation, and culture to culture. Society's ethics are usually minimum standards for decency and respect of others. Individual ethics are

personal beliefs about what is good and bad. Business ethics are tied to both society's ethics and the ethics of the individuals who work for, and buy products from, the company. For example, suppose you work for a company that makes cyanide gas. You know this gas can be harmful to people. Is it unethical that you make this gas? After all, you aren't using it to poison people. Should you do it because it will help the company make a profit? Should you be concerned that workers might be exposed to toxic effects from working with the gas? In this situation, you must decide whether this work is unethical and whether you are willing to expose yourself to trouble with your boss by opposing it.

How do you apply your personal beliefs in a business environment? Shouldn't you just do exactly what you are told to do? After all, the employer is paying you. Shouldn't the employer get to decide what you do? Would guidelines be helpful for making these decisions?

### Stretch Your Thinking

What are some products that could be considered unethical and morally wrong? Select one of these products and give reasons why you think this product is unethical.

## A Code of Ethics

Businesses face ethical questions every day concerning the products or services they sell and the way they deal with people inside and outside the company. Many companies choose to operate according to a **code of ethics**—a document that explains specifically how employees should respond in different situations.

A code of ethics is especially useful when problems arise. For example, in the Chicago area in 1982, someone contaminated several bottles of Tylenol with poison, and seven people died as a result. This was the first case of product tampering of its kind. Johnson & Johnson, the manufacturer of Tylenol, followed its code of ethics and immediately pulled every package of the product off the shelves throughout North America, even though this was very expensive for the company. Johnson & Johnson also changed its packaging so it would be much more difficult for someone to contaminate the product in the future. The recall and repackaging effort cost the corporation about US\$100 million, but it also showed customers that the company cared about their safety.

A code of ethics helps different people approach problems in the same way. Many companies have gone beyond simply writing a code and have established educational programs to help employees learn to behave more ethically. Program topics range from making personal calls during business hours to handling employee layoffs.

### The World of Business DVD

"Raging Bull"  
from *The World of Business DVD*



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The problem with creating and applying a code of ethics is that drawing a line between right and wrong isn't always easy. Is it wrong for a businessperson to give a client a gift because that client has been a valued customer over the past year? Or is this bribery? Is it wrong for a politician to make a phone call to a bank manager to help a friend obtain a business loan? Is this using political influence for personal purposes?

#### **Rogers Communications Inc. Code of Ethics and Conduct**

The Board of Directors (the "Board") of Rogers Communications Inc. (the "Company", which for the purpose of this Code includes its subsidiaries) has adopted this code of conduct and ethics for directors and officers of the Company (the "Code") to:

1. endorse and promote the Company's commitment to honest and ethical conduct, including fair dealing and ethical handling of conflicts of interest;
2. promote full, fair, accurate, timely, and understandable disclosure;
3. promote compliance with applicable laws and governmental rules and regulations;
4. ensure the protection of the Company's legitimate business interests, including corporate opportunities, assets, and confidential information;
5. deter wrongdoing.

All directors and officers of the Company are expected to be familiar with the Code and to adhere to those principles and procedures set forth in the Code that apply to them. The Company's more detailed policies and procedures that apply to all employees of the Company set forth in the Company's Business Conduct Guidelines are separate requirements and are not part of this Code.

For purposes of this Code, the "Code of Ethics Contact Person" will be the Chair of the Corporate Governance Committee of the Board.



A group of colleagues trying to work through a dilemma

Instead of referring to a written guideline, you can ask yourself, “If I take this action, will anyone suffer as a result?” For example, if a salesperson knowingly sells an item that does not have a return guarantee without informing the customer, the customer (and the business) could suffer. You don’t need a code of ethics to decide if it is wrong.

In Canada, the law details acceptable business behaviour, but companies can still behave unethically without actually breaking the law. Like the law, no code of ethics can provide guidance for every possible situation. Although codes of ethics sometimes help people make decisions, they are not conclusive guides to distinguishing between right and wrong, and they are not necessary for every company. As a result, some would say that people should rely on their own judgment first.

## How Can Businesses Resolve Ethical Dilemmas?

A **dilemma** is a situation where there is a difficult choice between two or more options. Dilemmas have good points and bad points on both sides. But not all dilemmas are right-versus-wrong scenarios. For example, a business decision about where to locate is a decision and may even be a dilemma if there are a lot of issues to consider. But it is not an ethical dilemma because it is not a right-versus-wrong decision.

### Stretch Your Thinking

How can businesses end up with a bad reputation? Are bad reputations always the business’s fault? What can a company do to change a negative public image?



## Oops!

The label on the soft drink 7-Up claims that it is 100% natural. According to the company, 7-Up no longer has artificial ingredients and preservatives. It now has five natural ingredients and a lower sodium content than before. However, the second ingredient on the label is a high-fructose corn syrup, an industrial processed sweetener. This “natural” bottle of 7-Up contains 62 grams of processed sugar. To add to the confusion, Agri-Foods Canada and the United States Food and Drug Administration do not have an official definition for “natural” food. So is 7-Up 100% natural? Is this an ethical claim?

## Stretch Your Thinking

Select one ethical issue mentioned in the timeline and find an example of an event that illustrates this issue. Who suffered or benefitted because of this issue? Did business practices or laws change as a result? If so, in what way?



This police officer is “blowing the whistle.”

An **ethical dilemma** is a moral problem with potential right or wrong answers. It occurs in business when a business has a decision to make that weighs values and morals against profitability and competitiveness. Suppose you are the manager of a business that has no really good place to dispose of its toxic waste, so the company has been simply dumping it. If you stop dumping it, you will hold up production until you find a proper place to dispose of it. But what if that turns out to be very expensive? Should you inform the business owners that the company is violating an environmental code? Or should you just ignore the problem?

Some ethical dilemmas facing society and business include downsizing of staff, pollution control, disposal of toxic waste, depletion and allocation of scarce resources, cost containment, changes in law and technology, employee rights, discrimination against women and minorities, and product safety.

Resolving ethical dilemmas requires honesty, the ability to work co-operatively, respect for others, pride in one’s work, willingness to learn, dependability, responsibility for one’s actions, integrity, and loyalty. It may help to respond to the following questions when seeking a resolution:

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

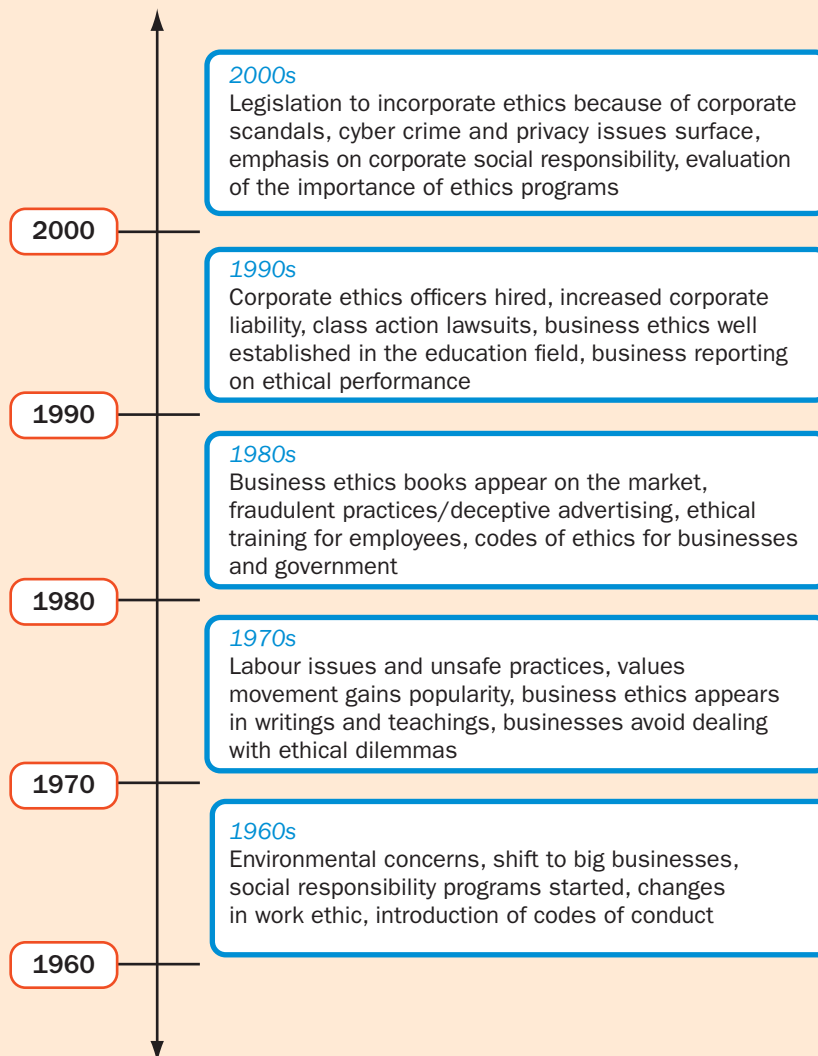
The types of ethical dilemmas people encounter in business, and the approaches used to resolve them, are continually changing and developing. This timeline (Figure 3.1) shows some of the changes that have occurred over the last 50 years.

## Whistle-blowing

**Whistle-blowing** is the decision of an employee to inform officials or the public about a legal or ethical violation. The employee discovers unethical, immoral, or illegal actions at the workplace and has to make a decision about what to do. Is it the right thing to inform someone else about these actions and, if so, how should that be done? Will the whistle-blower be rewarded or punished?

In the United States, the year 2002 became known as the “Year of the Whistle-blower,” and *Time Magazine* named three female whistle-blowers as their “Persons of the Year.”

**Figure 3.1** Ethical Dilemmas and Developments Over Time



Examples of issues that a whistle-blower might report include

- someone submitting false information on an expense report
- a business that's ignoring hiring procedures for minorities
- a business that's knowingly ignoring workplace safety codes
- a business that's not observing mandated health codes

## Business Fact

The City of Toronto adopted a corporate fraud policy in 2001. This policy prohibits any business operating in the city from bribing or otherwise influencing City employees. The policy also includes laws to protect whistle-blowers from losing their jobs or being punished by their employers. There is also a hotline for employees to report violations so that their employers don't know who blew the whistle.

## What Happens When People Don't Behave Ethically?

Imagine that you handle the bookkeeping for your company. Sounds boring? For day-to-day activities, it's probably not too exciting. But what if your boss asks you to alter some of the accounts to hide sums of money that seem to have disappeared? Or what if you come across some interesting figures about the company's future plans, and you decide to buy some shares in the company as a result of seeing these figures? Suddenly, you are dealing with important ethical issues—and not simply ethical issues either! These types of actions can land you in jail.

Table 3.1 shows some examples of situations in which people don't behave in an ethical way, and others are harmed as a result.

Fraud, accounting scandals, and insider trading are some of the major ethical issues that have become associated with businesses.

### Fraud

**Fraud** is the crime of lying or pretending. Some businesses mislead consumers and try to trick them into buying something in order to maximize their profits. The *Competition Act 2002* bans these types of fraud and deceptive business practices:

1. false or misleading advertising
2. advertising a bargain price for merchandise that is unavailable for sale in a reasonable quantity (“bait and switch” selling)

## In the News

Did you know that the film industry makes many movies about unethical practices? Movies that turn whistle-blowers into heroes have included the following:

1. *An Inconvenient Truth* (impact of global warming)
2. *The Insider* (secrets of the cigarette industry)
3. *Open Heart* (medical care in hospitals)
4. *Quiz Show* (ethical dilemma concerning cheating)
5. *Erin Brockovich* (industrial poisoning of a water supply)
6. *All the President's Men* (political cover-up)
7. *The China Syndrome* (nuclear accident)
8. *Silkwood* (safety concerns)
9. *Serpico* (police corruption)
10. *Roger & Me* and *The Big One* (corporate downsizing)







3. placing two different prices on a product and selling it to the consumer at the higher price (double ticketing)

Several types of fraud can involve consumers and businesses. Fraud offences are constantly changing and can vary in their level of sophistication. Here's an alphabetical list of the more common frauds with examples.

1. *Bank fraud*—A bank officer makes a fraudulent loan to a non-existent business and then pockets the money.
2. *Consumer fraud*—A business tricks customers into buying goods or services they don't really need through unethical advertising or false claims.
3. *Contract fraud*—A business or individual uses temptations, such as bribes or kickbacks, to create a contract.
4. *Insurance fraud*—A business or individual falsely claims lost, damaged, or stolen property in order to receive insurance settlements.
5. *Mail fraud*—An individual uses the postal service for fraudulent purposes, such as mailing phony job opportunities, chain letters, or inheritance scams.
6. *Pyramid scheme fraud*—A person participating in the scheme recruits others in order to receive more money than she or he invested in the scheme.
7. *Stock market fraud*—An individual uses insider trading or other techniques to buy and sell stocks at artificial values.
8. *Telemarketing fraud*—A company uses high-pressure phone calls to get customers to buy now or to donate funds to bogus charitable causes.
9. *Welfare fraud*—An individual receives benefits without being eligible.

### ***Bre-X***

One famous fraud case was the story of the Canadian mining company Bre-X. Bre-X came to the attention of the general public when it was reported that the company was sitting on an enormous gold deposit in Indonesia. In 1995, Bre-X announced that significant amounts of gold had been discovered and, as a result, its stock price went up. How much? Bre-X stock went from less than a dollar per share, known as a penny stock, to a high of \$286.50 per share. If an owner or investor had bought

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in at the beginning and sold when the stock reached its peak, he or she would have made about \$286.00 on each and every share. A thousand dollar investment could have turned into \$286 000 for that investor! However, it was a massive fraud because there was no gold. Once doubt about the gold find started growing, people began selling off their shares. Bre-X went bankrupt in 2002, and the investors who still had stock lost every penny they had invested.

**Table 3.1**

Examples of Unethical Behaviour in Business	
Unethical Behaviour	Consequence
<i>Fraud</i> : A method used to deceive someone for personal gain	<ul style="list-style-type: none"> <li>harm to the person who is deceived</li> <li>loss of job and/or jail time</li> </ul>
<i>Forgery</i> : A form of fraud that could involve passing bad cheques by forging someone else's name	<ul style="list-style-type: none"> <li>harm to the people whose signatures are forged or who accept bad cheques</li> <li>loss of job and/or jail time</li> </ul>
<i>Theft</i> : Stealing someone's property	<ul style="list-style-type: none"> <li>harm to the victim</li> <li>loss of job and/or jail time</li> </ul>
<i>Employer Theft</i> : Could involve taking advantage of employees by not paying for overtime worked	<ul style="list-style-type: none"> <li>harm to the employees that could result in people quitting</li> <li>loss of job and/or jail time</li> </ul>
<i>Embezzlement</i> : A form of fraud where a person violates a trust by moving funds into their account instead of the correct account	<ul style="list-style-type: none"> <li>harm to the person or company whose funds are stolen</li> <li>loss of job and/or jail time</li> </ul>
<i>Misuse of Funds</i> : Moving monies from one account to another without permission or direction	<ul style="list-style-type: none"> <li>harm to the person or company whose funds are misused</li> <li>loss of job and/or jail time</li> </ul>
<i>Discrimination</i> : Not hiring a person because of an issue not related to the person's ability to do the job (e.g., race, religion, gender, or disability)	<ul style="list-style-type: none"> <li>harm to company because new employees aren't always the best people for the job</li> <li>loss of job</li> </ul>
<i>Environmental Violations</i> : A company ignoring laws and regulations that involve toxic waste	<ul style="list-style-type: none"> <li>harm to the environment and possibly to people and animals</li> <li>fine and/or decrease in market value of stock</li> </ul>
<i>Concealing Information</i> : Not disclosing data that should be shared, for example, about defective products	<ul style="list-style-type: none"> <li>harm to customers or employees, for example, because of unsafe products or working conditions</li> <li>fine and/or decrease in market value of stock</li> </ul>
<i>Tampering with Records</i> : A form of fraud where records are altered in some way to deceive other persons	<ul style="list-style-type: none"> <li>harm to the people who are being deceived</li> <li>loss of job and/or fine and/or jail time</li> </ul>



Bre-X Minerals Group in Indonesia

## Ethical, Moral & Legal Considerations

“I consider my past immoral, unethical, and illegal. It is something I am not proud of,” said Frank W. Abagnale Jr., the youngest person to ever make the FBI’s most-wanted list. Beginning at the age of 16, Abagnale wrote bad cheques totalling \$2.5 million over a six-year period in 26 countries. As a con artist, he impersonated a doctor, a lawyer, and an airline pilot. His career in crime lasted six years from 1963 to 1969. The 2002

movie *Catch Me If You Can* was based on Abagnale’s life. After being caught and serving time in prison, Frank Abagnale became a consultant for the FBI where he worked on white-collar crime. How would a business take care of a bad cheque that they may have received from a con artist like Frank? What can a business employee do to detect a con artist? How can companies protect themselves from con artists and fraud artists?



## Accounting Scandals

Willie Sutton, a famous bank robber whose crimes were committed in the 1920s, 30s, and 40s, was once asked why he robbed banks. His response was: “Because that’s where the money is.” Today, money is in accounts, which are paper and computer documents tracing money in banks and investments. Accounting is the process of identifying, measuring, and communicating financial information about a business so that informed judgments and decisions can be made based on that information. An **accounting scandal** is a publicly exposed crime involving accountants or senior executives who alter accounting records for personal benefit. Accounting scandals typically take place in large corporations. Chapter 9 deals with the subject of accounting and provides more details about accounting procedures. When an accounting scandal is uncovered in a business, outside accountants are appointed to find out what happened. A **forensic accountant** is an accountant who investigates legal and financial documents, looking for evidence of tampering. (See Chapter 9 for more information on forensic accounting.)

In small businesses, accounting crimes often involve embezzlement. **Embezzlement** is a type of accounting fraud in which an accountant or senior executive invents phony accounts and redirects company money into them for personal gain. Business owners sometimes do not pick up on embezzlement activities until they have gone on for a long time.

In large businesses, fraud often involves “cooking the books” regarding assets and liabilities. **Assets** are items that a business owns, such as buildings, land, equipment, cash, and receivables. **Liabilities**, on the other hand, are debts that a business owes. Corporate fraud often involves misusing or misdirecting funds, overstating revenues, understating expenses, overstating the value of corporate assets to the public shareholders, or under-reporting liabilities. **Auditors** are outside accountants who check the financial records of companies. The owners and shareholders rely on auditors to make sure that these frauds do not occur. But if a highly experienced accountant is committing the fraud, even an auditor may have difficulty detecting it. Enron is an example of a public corporation that was involved in an accounting scandal.



Fraud exposed!

### *Enron*

The biggest accounting scandal that has ever taken place involved an American energy company called Enron. In the late 1990s, Enron was considered one of the world's leading electricity, natural gas, and communications companies. It also had the label of being "America's Most Innovative Company" for six consecutive years. But in 2001, Enron went bankrupt. An audit revealed that the assets and the profits of Enron had



been grossly inflated and in some cases were even non-existent. Enron was accused of inflating its income figures by US\$586 million over a four-year period. The collapse of the company had a tremendous impact on employees and investors. Over 20 000 people lost their jobs, and at the same time, millions of investors lost US\$60 billion dollars. Moreover, the accounting company that had been auditing Enron's books for decades—Arthur Andersen Inc.—also went bankrupt. Several senior executives of both companies faced criminal charges and jail sentences.

### **Insider Trading**

Wouldn't it be great to have access to the winning lottery numbers before they are drawn? In business, corporate executives normally do have access to winning lottery numbers—in the form of confidential information about the business and its future plans. A quick investment in the right company could make you a lot of quick money! But buying or selling shares in a company based on this type of confidential information is known as **insider trading**, and it's illegal. For example, if you are an executive and you learned in a meeting that an accounting scandal about the company is going to hit the newspapers tomorrow, you also know that the price of the company's shares will drop as the wary public sells off their shares. You might decide to quietly sell your shares now, before the price drops. However, authorities at the stock exchange watch for these timing issues and will likely discover that you have committed the crime of insider trading. Stock markets operate on the premise that everyone learns about the same information at the same time and therefore no one gets an unfair advantage. Insider trading occurs when someone makes an investment decision based on confidential information that is not available to the general public.

For example, Martha Stewart of Martha Stewart Living Omnimedia Inc. allegedly received insider information from someone about the company ImClone, and she dumped her stock in ImClone before the price dropped, thus saving a potential loss. However, there is some debate whether Stewart was given confidential information or simply an insider's best guess at what was going to happen. But because she tried to hide the truth about what she had done, and because she

wanted to prevent further scandal, Martha Stewart went to jail all the same.

But not all insider trading is illegal. It is perfectly legal for people who work for a company to buy and sell stock in that company, as long as they inform the stock exchange that they are doing it. Insider trading only becomes illegal if someone purchases or sells stock based on information that has not yet been made public, thereby giving themselves an advantage over all other investors. For example, having prior knowledge of an upcoming take-over of a company could give a person an unfair advantage when buying or selling shares of a corporation.

It is not easy to detect insider-trading practices, so regulators use sophisticated computer programs to search for abnormal patterns of the sale of stocks. This unethical and illegal practice, when noticed, is prosecuted by **provincial securities commissions**. Even though the penalties vary from province to province, those guilty of insider trading could face fines of up to \$1 million, be forced to turn over their profits, face jail sentences for up to two years, and could be banned from future trading in securities.



Traders working the floor of the New York Stock Exchange

### Review Questions

1. What does the term ethics mean?
2. Do most people practise good ethical behaviour? Should they?
3. How can a business convey its ethics and values to its employees, customers, and owners?
4. Use an example to describe what is meant by “ethical dilemma.”
5. a) Define whistle-blowing.  
b) Describe a hypothetical job situation in which you might be a whistle-blower
6. What is an accounting scandal?
7. Is insider trading always illegal? Explain.

### Keep in Mind

1. CSR principles
2. duty to report
3. laws that govern corporate ethics (i.e., workplace safety, antidiscrimination issues, accessibility issues, environmental responsibility, labour practices)
4. fair trade

### Business Fact

**According to a GlobeScan study, 56% of shareholders believe that socially responsible companies are more profitable and 18% say they have bought or sold shares because of the company's social or environmental performance.**

## Ethics and Corporate Social Responsibility

Businesses exhibit **corporate social responsibility (CSR)** through their values, their ethics, and the contributions that they make to their communities. In other words, CSR has to do with “What you do, how you do it, and when and what you say.”

A socially responsible business provides goods and services in line with society's values. Socially responsible businesses are concerned about how they protect customers and treat employees and shareholders. For example, a business may discover that it can make a higher profit by closing a plant in one town and opening a new plant one hundred miles away. What should the people who run the business consider as they decide whether or not to open the new plant? What obligations do they have to their employees, to their shareholders, or to the community where their old plant is located? Will the new plant result in harm or benefit to people in the community where it is going to be built?



Training employees to work safely is very important.

## CSR Principles

CSR companies believe that it is important for businesses to be socially responsible to their employees, their customers, and their communities. These are the companies that actively support community projects, that provide money for children's sports teams, or that develop innovative programs to keep their employees happy and healthy.

Businesses that practise CSR make every effort to support their beliefs by adhering to the following CSR principles.

Business ethics and corporate social responsibility concepts have been around for some time. So haven't most, if not all, businesses already adopted these guidelines? No. The news is filled with examples of unethical and illegal business practices. The sad truth is that too many businesspeople believe that normal business procedures mean dealing with ethics only when necessary, or not dealing with ethics at all.

**Figure 3.2** CSR Principles





Keeping our environment clean is healthy for humans, plants and animals.

Ironically, the same person who cheats in their financial dealings or steals office supplies wants the corporations that they invest in to be straightforward, honest, and truthful in their dealings with them. But ethics have to apply at all levels of business, from the lowest-paid employee to the president and shareholders.

Why should businesses practise business ethics and engage in corporate social responsibility? Here is a top-10 list of reasons why they may choose to do so.

**Table 3.2**

### Top 10 Reasons for Business Ethics

1. satisfy shareholder expectations
2. protect the reputation of the business
3. build trust with those groups with which they work
4. guard against unethical employees and competitors
5. establish a working environment that matches their core values
6. ensure that the business is an equal opportunity employer
7. maintain a safe working environment for employees
8. engage actively with local communities as a partner
9. maintain high standards of integrity
10. adhere to the practice of full disclosure on the quality of goods and services

### An Example of Corporate Social Responsibility

The City of Kitchener, Ontario, is a large employer with about 1200 employees. In other words, the City is a corporation. It has to practise its own corporate social responsibility. The City offers several workplace health and safety programs for its employees, including training and personal development opportunities, an employee assistance program for staff to access free counselling and workshop services, career counselling, and a wellness program. The City also has a diversity committee that looks into fair hiring practices, retention and recruitment strategies, and accessibility and accommodation issues for employees with disabilities.

In addition, the City also promotes environmental responsibility through recommendations from its environmental advisory committee, its use of Smart cars in its fleet, and its power consumption reduction strategies in summer (turning off fountains, dimming lights, and raising the air-conditioning temperatures in City offices).

## Duty to Report

Should a business develop and follow their own business ethics, or should they simply follow the laws that apply to the business? As businesses get larger and larger, ethical dilemmas become even more difficult because many groups have to be satisfied. For example, corporations have a **duty to report**, which means they must disclose all important information to shareholders, business partners, lenders, insurers, communities, regulators, consumers, employees, and investors. Employees who have knowledge that a law, regulation, policy, or ethical guideline has been, or may be, violated must promptly report such information. This is not always an easy task.

## Laws that Govern Corporate Ethics

In Canada, we have many different laws that govern ethical behaviour in business. Some of these have to do with the actions of individuals. (Earlier in this chapter you read about some of the crimes, such as fraud, that employees and business owners can commit.) However, there are also laws that govern the way a business as a whole can interact with its employees, its customers, and the community in which it operates. These laws relate to six major areas: workplace safety, antidiscrimination issues, accessibility issues for people with disabilities, environmental responsibility, and labour practices.

### Literacy Link

#### Vocabulary in context

If you want to increase your reading speed and expand your vocabulary, try to determine the meaning of words from the context of the sentence rather than relying on your dictionary.

### E-ACTIVITY

Visit [www.nelson.com/WOB](http://www.nelson.com/WOB) and follow the links to learn more about laws that govern ethical behaviour in business.



Randy Eresman, president and CEO of EnCana—one of North America's leading gas producers—speaks to shareholders at the company's annual general meeting.



A firefighter puts on a protective uniform before attending a call.

## Workplace Safety

The workplace used to be a place where people often died. When the Canadian Pacific railroad was built across Canada in the 1880s, more than 1000 Chinese workers imported to work on the project died on the job. These workers had been assigned all the most dangerous jobs, such as working with explosives. Around the same time, mining jobs weren't much safer because methane gas caused explosions, and mines had no safety features. Workers had no right to a safe workplace. But even well into the 1900s, mine work still wasn't safe. Miners developed diseases from inhaling silica dust, asbestos, or chemicals, and from being exposed to radiation. More recent mine disasters include: Westray Mine, Plymouth, Nova Scotia (1992) and Sago Coal Mine, West Virginia, United States (2006).

Today, many office workers get sick from poor air quality, stress-related injuries, and equipment-related injuries such as carpal tunnel syndrome. Unfortunately, too many companies get caught up in the drive for higher profits and tend to allow workplace safety to become an afterthought.

However, the majority of businesses practise sound business ethics and obey ever-improving workplace safety laws. How can a business respond to some of these workplace problems? One way is to provide a safe and healthy work environment for their employees. For example, a business may initiate an employee wellness program. Such a program might offer employees flexible hours, professional development opportunities, and on-site daycare or fitness facilities.

In Ontario, the *Occupational Health and Safety Act* (OHSA) was instituted to ensure workplace safety and health. This act defines the rights and responsibilities of workers. Workers have three basic rights in the workplace: the right to refuse unsafe work, the right to participate in the workplace health and safety activities, and the right to know about the actual hazards in the workplace. As a result, worker safety is now a priority for almost all employers. (Chapter 6 outlines a variety of employee wellness programs and discusses workplace safety as well.)

### Business Fact

According to the Ontario Workplace Safety and Insurance Board, in 2002, the average lost-time injury in Ontario cost \$59 000. In 2006, the cost was approximately \$98 000.

## Antidiscrimination Issues

Discrimination is incompatible with standards of professional ethics and with ethical behaviour. Some people argue that **gender discrimination** is irrelevant in today's workplace because important changes have removed gender discrimination. Women

## Ethical, Moral & Legal Considerations

Workers have rights in the workplace, but not all new employees are given enough training when working in dangerous environments. A 16-year-old in British Columbia was given 20 minutes of training on how to operate a forklift truck. This instruction amounted to learning how to use the levers and how to lift heavy pallets high off the ground. One morning, because the forklift was

blocking traffic, the young worker pushed the reverse lever while standing beside the forklift, which is something he had seen other workers do. The forklift shifted his way, and while trying to get out of its way, he slipped on hydraulic fluid that was on the floor. After being crushed by the machine, he woke up three days later in the hospital. He had 65 staples in his body, two metal rods and six

screws in his back, one missing kidney, paralyzed legs, and little hope of ever walking again.

Was it right to allow this worker to operate a forklift after 20 minutes of training? Who is at fault? What should teenage workers do if they are asked to perform jobs they don't believe are safe?

have successfully lobbied for changes that have improved their status in the business world, and they are now able to compete on an equal basis for management and high-level positions. Employees have the right to work in an environment where their individual values are respected. In general, this means that an employee is not singled out or treated differently because of his or her race, religion, gender, or sexual orientation.

Companies may not even be aware that they are discriminating. For example, many women and minority or disabled workers face a glass ceiling in the workplace. A **glass ceiling** describes the invisible barriers to senior leadership positions.

Companies with glass ceilings don't have official policies of appointing only white, able-bodied males to these positions; yet procedures, expectations, selection and recruitment practices, job assignments, performance evaluations, decisions about salaries, and the working environment all may work together to prevent women, minorities, and disabled people from obtaining promotions.

Some businesses have established educational programs or hired an antidiscrimination officer to help prevent incidents of discrimination. McMaster University is an example of an institution that has hired an antidiscrimination officer. The job of that officer at McMaster is to uphold academic freedom and freedom of expression and association.



## Harassment

Many businesses also recognize the legal and moral responsibility to protect all of their workers from harassment and to take action if such behaviour does occur. **Harassment** refers to those behaviours that are found to be threatening or disturbing, and these behaviours are not acceptable in society. Many businesses have policies and procedures for dealing with harassment complaints. Examples include bullying, stalking, and other forms of harassment that deal with sexual, racial, sexual orientation, or disability issues. Racial harassment is hurtful or offensive behaviour based on race, ethnic, or national origin. It includes written or verbal threats or insults based on race, ethnicity, or skin colour; abusive comments about racial origins; ridicule based on cultural grounds; derogatory name calling; racist jokes; damage to property; the display of offensive graffiti; and encouragement of others to commit any of the above.

## Accessibility Issues

Many people who have some kind of disability need and want to work, but businesses sometimes have difficulty accommodating



This female manager works hard to overcome gender discrimination in the workplace.

disabled workers because there are so many different kinds of disabilities. As a result, laws help guide businesses by balancing the rights of the disabled individual to work and the rights of businesses to limit how much they need to do for disabled workers. Many businesses have built ramps and purchased alternative equipment to help accommodate disabled workers. Meanwhile, the law enforces the rights of the individual to a fair job interview that does not discriminate based on disability.

Today, businesses have a duty to accommodate people with disabilities to help eliminate discrimination in the workplace. The **duty to accommodate** refers to an employer's obligation to take appropriate steps to eliminate discrimination against employees. This duty to accommodate is written into Sections 2 and 15 of the *Canadian Human Rights Act*. The act stipulates that accommodation is required, short of undue hardship for the business. An employee who has been denied accommodation can file a complaint under the act. Failure to provide accommodation, short of undue hardship for the business, may result in legal action against the business.

Most businesses practise sound business ethics by finding ways to help accommodate workers who are disabled. These accommodations include changing the job tasks that a worker does, allowing guide dogs in a work environment, making the work space more user friendly, providing sign-language support, and training other workers who work with disabled workers.

## Environmental Responsibility

Who is responsible for the environment? What role should businesses play in dealing with environmental issues? Does the fact that temperatures seem to be rising over time have anything to do with business?

The good news is that both individuals and businesses are making positive strides to help deal with the environment. The not-so-good news is that it has taken media attention to get environmental issues high on the list of priorities with many businesses. Why have businesses avoided this issue? They would argue that they have a corporate responsibility first to owners, then to customers, then to employees, and then to partners. All these responsibilities are higher on the list of priorities than the responsibility that deals with the environment, that is, to society. However, if businesses keep taking from the environment without putting anything back, the resources will become depleted.



More and more companies are adapting the work environment so that people with different physical abilities can work comfortably and productively.

### Business Fact

**It is estimated that there are 610 million disabled people worldwide. Disability affects 20% of the working population.**

Environmentalists tell us that the clock is ticking and we can no longer assume that someone else will fix the problem.

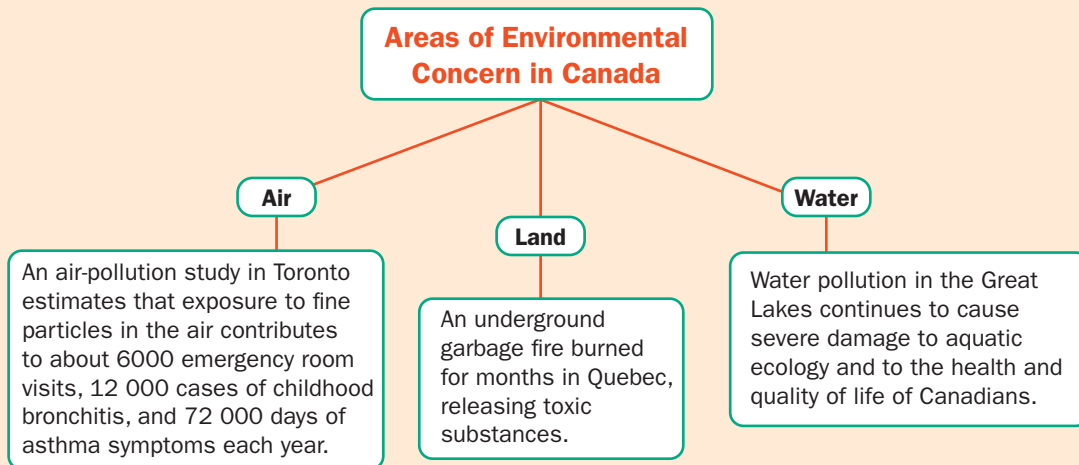
Typically, environmental concerns are categorized under air, land, and water, as illustrated by the following examples.

The government of Canada has responded to environmental challenges by passing environmental protection laws and by working with international organizations formed to protect Earth's air, land, and water. However, environmental strategies can be controversial since people disagree about what needs to be done and how to do it, and since businesses are sometimes asked to make sacrifices. For example, in order to reduce the amount of pollution a factory puts into the air, it may be required to buy expensive new equipment, radically change its production procedures, or limit the hours during which it operates.

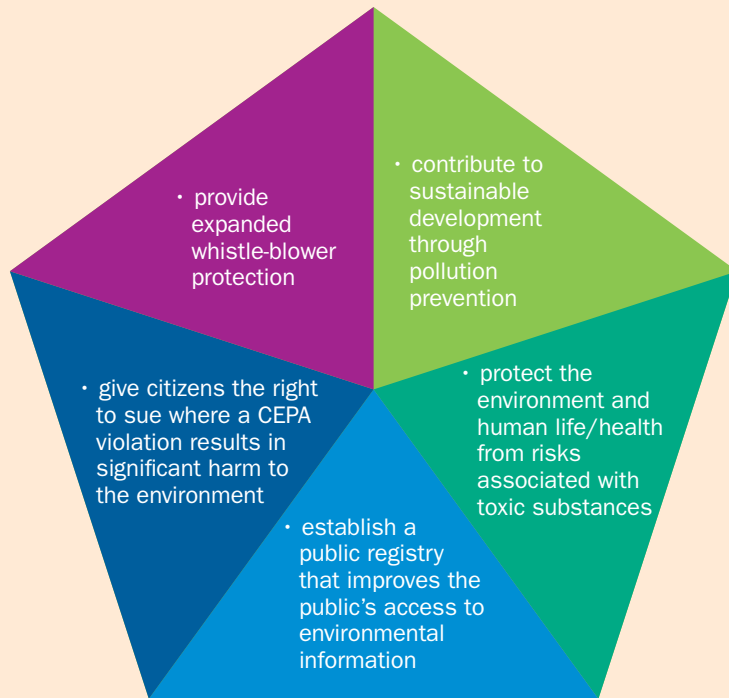
### *Environmental Protection Act*

During the growth period of the 1980s and 1990s, Canada experienced some large-scale environmental disasters, such as the Exxon Valdez oil spill off the west coast of Canada. In response, the government introduced laws and regulations to help prevent future environmental disasters. One of these laws was the *Canadian Environmental Protection Act 1999*, which is administered by Environment Canada.

**Figure 3.3** Areas of Environmental Concern in Canada



**Figure 3.4** Highlights of the *Canadian Environmental Protection Act (CEPA)*



## In the News

A judge in St. Catharines, Ontario, issued the first jail sentence under the *Canadian Environmental Protection Act* on July 22, 2005. Two charges had been laid under the Export and Import of Hazardous Waste Regulations for exporting more than 37 800 kilograms of waste batteries for recycling to the United States. Environment Canada had not been informed and no permits were in place to authorize the exports. A diversion agreement reached between Crown and defense counsel resulted in all charges being withdrawn. However, Battery Broker Environmental Services Inc. agreed to contribute \$5000 to the Niagara Peninsula Conservation Authority in support of environmental projects in the Niagara Region.

However, even with legislation in place, some businesses ignore the laws. Why? Because it may be more costly for businesses to comply, and this added expense could have an impact on their profitability.

### ***Kyoto Protocol***

In 1997, representatives from around the world met in Kyoto, Japan, and reached an agreement on targets to combat global warming. Global warming is the gradual increase of the temperature of the earth's lower atmosphere as a result of increased greenhouse gases in the atmosphere. The agreement is known as the **Kyoto Protocol** (sometimes referred to as the *Kyoto Accord*). Canada signed the agreement in 1998, and the Canadian Parliament ratified the agreement in 2002. The Kyoto Protocol required countries to reduce carbon dioxide emissions so, by 2012, they will be about 5 percent less than they were in 1990. However, Canada's progress has been much slower than anticipated because reducing emissions has proved more difficult and costly for both businesses and individuals than was initially expected.



All wildlife deserve protection from oil spills and other environmental hazards caused by humans.

### ***Business and the Environment***

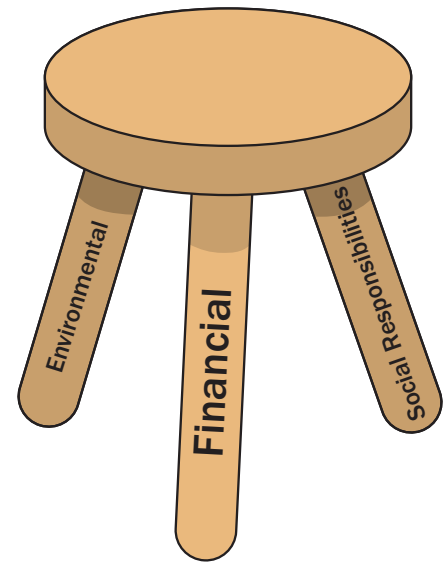
How businesses respond to environmental concerns tells us about their ethics, that is, how they feel about doing what is right. Many businesses have contributed to environmental problems but, at the same time, many have committed resources to pursue solutions. For example, in May of 2005 General Electric announced the beginning of an environmentally friendly initiative. Part of this initiative is dedicated to focus on clean technologies, and the company will commit US\$1.5 million per year.

How important are environmental concerns to business? Businesses have been described from time to time as appearing to resemble a three-legged stool. Each leg of the stool stands for a different goal of that business and these “legs,” or goals, are financial, environmental, and social.

However, the problem with this image is that the amount of corporate resources spent on environmental and social goals is never equal to what is spent trying to generate profits (financial goals).

This imbalance, in large part, is due to the obligation of managers to please owners and shareholders. The pursuit of profitability can put pressure on businesses to cut costs, for example, by moving production to locations where environmental regulations are less restrictive.

In too many cases, dealing with environmental concerns has only come about because of constant scrutiny of business practices by different levels of government, the media, pressure groups, and consumers. When a company's reputation is at stake, the company is likely to invest more to achieve environmental and social goals, that is, to try to balance the three-legged stool. The good news is that initiatives that benefit the environment can also increase profits. For example, energy efficiencies and waste reduction may reduce costs, while the use of modern, cleaner technologies may increase productivity. And it's also important to remember that responding to environmental and social concerns can attract customers, enhancing a business's competitive advantage in the marketplace.



Thousands of people march through the streets on December 3, 2005, in support of a worldwide day of protest against global warming.

### Stretch Your Thinking

After the federal election in January 2006, the new Canadian government decided that, rather than spending money on international programs they saw as unrealistic and unachievable, they would focus on developing “made-in-Canada” solutions to the problem of carbon dioxide emissions and place a new emphasis on the development and deployment of clean technology. If you were in charge of the Canadian government, what would you do to reduce Canada's carbon dioxide emissions?

## Labour Practices

In Ontario, the *Employment Standards Act* sets out certain mandatory minimum conditions of employment. It governs areas such as hours of work, overtime pay, minimum wage, holidays, vacations, equal pay for male and female employees, employee benefit plans, pregnancy, parental leave and other leaves of absence, notice of termination of employment, and severance and termination pay.

To complicate the issue for a business employer, certain categories of employees may be exempt from some of these employment standards, depending on the jurisdiction. For example, supervisors and managers are often exempted from hours of work and overtime pay provisions. Also, changes in labour law can occur. For example, in 2000, the Ontario Conservative government raised the maximum permitted hours of work to 60 per week, so long as the employee agreed. However, in 2004, the new Ontario Liberal government cut back the maximum number of hours that employees can work.

### *Pay Equity*

Pay equity legislation has been around since 1978, but it has seen a lot of changes over the years, and it still doesn't always deliver in terms of equal pay for work of equal value. The legislation is designed to prohibit an employer from paying employees of one sex differently than employees of the other sex who perform the same or substantially the same work. Substantially the same work is judged by assessing the skill, effort, and responsibility required and the conditions under which the work is performed.

## Ethical, Moral & Legal Considerations

In 2004, employees of the City of Kitchener who were performing routine maintenance at a park uncovered discoloured soil and debris beneath the surface. Experts concluded that there was no evidence that anyone had been exposed to the materials in the soil. The City could have kept the cleanup quiet and low-key, simply stating that work

was being done on the park without elaborating on the cause. Instead, the City closed the park as a precaution while the soil was being tested. Tests revealed slightly elevated levels of lead and zinc in the soil, and the City proceeded with an environmental clean-up program.

Notices were sent out regularly to residents and the media,

providing the results of the soil sampling and the clean-up plan. Public meetings were held, and information phone lines were established. At every stage, the public was informed about what exactly was found in the soil, and what was being done to address it.

## In the News

What cost \$282 million, took 14 years of court battles, and affected almost 33 000 employees? The largest pay-equity settlement ever reached in Canada. It all started in 1992 when the unions representing Bell Canada workers filed a pay-equity claim with the Canadian Human Rights Commission. The case took a long time because it was the subject of extensive legal challenges.

The settlement covers union members who worked for at least six months in female-dominated jobs—operators, dining service, and house service workers—between 1993 and 1999. The pay equity settlement came in two components because there were two separate unions involved in the dispute with Bell Canada. In September 2005, workers who were in the Canadian

Telecommunications Employee Association were awarded \$178 million, and in May 2006, workers who were in the Communications, Energy, and Paperworkers Union of Canada were awarded \$104 million. The settlement covered both current and former employees, and the legal battle went all the way to the Supreme Court of Canada before it was resolved.

Then why, according to the Canadian Human Rights Commission, do women who work full time make an average of only 72 cents for every dollar earned by men? Some would argue that the wage gap has to do with differences in education, experience, and hours of work. However, Canadian economists estimate that 20 to 30 percent of the gap is due to discriminatory attitudes towards women in the workplace.

### *Privacy Laws*

Like pay-equity legislation, privacy laws can affect how businesses work. The *Personal Information Protection and Electronic Documents Act* came into full effect on January 1, 2004. The law requires all provincially regulated businesses to fully explain what personal information they require from employees or customers, and why they need it, before they can obtain it. The law gives individuals the right to demand full disclosure of any personal information a company holds on them, and people can challenge the accuracy or use of their personal information. This means that businesses such as your local video store have to be accountable for any personal information they collect about their customers.

### **Fair Trade**

While some types of ethical behaviour in business are required by law in Canada, there are other types that are voluntary. One example is **fair trade**, the practice of helping producers in developing countries bypass expensive middlemen so they can sell their goods in other countries for a fair profit.

The World of Business 

**“Under the Radar”**  
from *The World of Business DVD*



For centuries, farmers in less-developed countries have struggled to make a decent living. To add to their problems, unscrupulous corporations and middlemen sometimes pay farmers poorly for their crops and then sell these crops on the international market at much higher prices. Sometimes the farmers starve on the money they earn, but they have no other way to sell their crops internationally. Fair trade began about 50 years ago as a grassroots movement to help farmers get a fair price for their goods. A **grassroots movement** is one that develops from the bottom up, not from the top down. In this case, the fair-trade initiative began with a partnership between farmers and aid organizations that help them reach markets in Europe and North America.

## Ethical, Moral & Legal Considerations

Many countries do not respect labour laws and allow child labour to take place. An estimated 246 million children are engaged in child labour around the world—a number that is roughly nine times the population of Canada. Child labour refers to children under the age of 12 working in activities that, for the most part, are very harmful to them. According to UNICEF, 70 percent of child labourers work in agriculture. Many work in mines, or with chemicals and pesticides, or with dangerous machinery in agriculture. Others work as domestic servants or in workshops, more accurately labelled sweatshops, and are paid little or no wages for this work.

Exploiters tend to justify their involvement by claiming that these children are helping out at home, need to work, and get to

keep the money that they earn. However, those children should be in a school, not in a field or

factory. What companies are you aware of that have been accused of exploiting child labour?



Fair-trade goods, such as fair-trade coffee, tend to cost a little more than the grocery-store brands. However, some consumers insist on buying nothing else, which helps to grow the fair-trade market. Consumers know that when they support fair trade, they are not exploiting poor farmers in distant countries. Fair-trade products are always marked with a fair-trade logo, such as the **TransFair Canada** symbol. TransFair Canada is one **non-profit organization** that assures consumers that the goods are certified and that the purchases are benefiting the producers and workers. The TransFair symbol is a certified trademark, but it applies to the product, not to the company that sells it.

Fair trade is a type of ethical trading in which consumers decide to do what is right. Ethical trading means using trade to help ensure that the basic labour rights of employees in other countries are respected. For example, many religious organizations, trade unions, and clubs have policies of buying only fair-trade coffee and tea for events and meetings. But companies can also participate in ethical trading by enforcing fair-trade practices on their suppliers. Today, close to a million farmers in 44 developing countries work with and benefit from the sale of fair-trade certified products. Some of these certified products include coffee, tea, rice, bananas, cocoa, sugar, honey, and fruit juices.



### Business Fact

In the United Kingdom, the largest national fair-trade market by volume, sales of products bearing the FAIRTRADE mark are running at around £100 million per year (C\$211 million).

### Review Questions

8. Which is more important—doing the right thing or being perceived as having done the right thing? Explain.
9. To whom do corporations have a duty to report?
10. Define what the terms glass ceiling and gender discrimination mean.
11. What does a duty to accommodate mean for a business?
12. Why was pay equity legislation necessary in Canada? Has it accomplished its objective?
13. What law was passed by Parliament to help protect against environmental disasters, such as the Exxon Valdez oil spill?
14. Define global warming.

## CHAPTER REVIEW

### Knowledge

1. If your employer doesn't have a written code of ethics, what key question can you ask yourself when you find yourself in an ethical dilemma at work? Suggest a second question to ask yourself as well.
2. Why is the *Competition Act* important for consumers? for businesses?
3. What is the purpose of the *Occupational Health and Safety Act* (OHSA)? What three rights does it guarantee for workers?
4. What kind of wrongdoing would most likely prompt you to become a whistle-blower? Are there certain kinds of wrongdoing that would not prompt you to become a whistle-blower? Explain.
5. Why is fair trade necessary? Who benefits when fair trade practices are in place?

### Thinking

6. A person owns a non-profit agency that helps young people find jobs. A car dealership offers to donate a \$20 000 van to the agency. But the dealership wants the agency to state in writing that the donated van is worth \$40 000. This lie would allow the dealership to write off a \$40 000 donation on its taxes, instead of a \$20 000 donation. The agency really needs the van. What should the owner do in this case? Justify the position that you take.
7. Review your school's guidelines for student behaviour. How are these guidelines similar to the code of ethics a business might have? How are they different?
8. Working with a partner, visit the website of one of the organizations listed below. Find and summarize the organization's behaviour guidelines for one of the following groups: communities, employees, customers,

suppliers, or owners. Present your findings to the rest of the class. Include in your presentation your view of the guidelines. Do you agree with them? How could they be improved?

- a) The International Chamber of Commerce
- b) Canadian Business for Social Responsibility
- c) Ethicscentre.ca
- d) The Institute for Global Ethics
- e) Businessethics.ca

### Communication

9. Search through magazines and newspapers to find a current ethical issue that affects the business world. Discuss the issue with a partner. Write a summary that explains both sides of the issue (the points in favour and the points against).
10. A rich person and a poor person commit the same type of fraud crime. The rich person is fined \$75 000 and the poor person is sent to jail for one year. Is this fair? Write a letter to the editor of your local newspaper outlining your opinions on this subject.
11. A public company wants to devote more of its resources to social responsibility. With a partner, role-play opposing views. One of you is the Chief Executive Officer (CEO) of the company. The other represents the shareholders who want to see a large return on their investment. Plan your argument before you begin.
12. "Our employees have worked 514 days without a workplace accident." This is a message that could appear on a company signboard in view of the passing public. Compose a similar signboard message that would inform the public about how the company is involved in one of the other CSR principles.

## Application

13. Many people believe that practising ethical behaviour will limit their opportunities and profit. If being unethical means getting ahead, then people are sometimes willing to act unethically. Do you believe that unethical behaviour is ever justified? Divide into two groups, those who support unethical behaviour in some circumstances and those who think that unethical behaviour is always wrong. After sharing information within each group, debate the topic.
14. Research a company in your community that has a socially responsible program. How long has this company's program been in place? What impact has it had on your community?
15. Accounting scandals, insider trading, fraud, and environmental disasters are some of the major ethical issues associated with businesses. Select a Canadian event that relates to one of these ethical issues and research it further. How did this event cause problems for consumers and businesses? Did it create any benefits for consumers and businesses? Has anything been done to prevent similar events from occurring in the future?
16. Contact the Chamber of Commerce in your community. Compare the services offered in your community with those offered by the Chamber of Commerce in your community or region. Identify an ethical dilemma that your Chamber of Commerce has faced and explain what was done to solve that dilemma.

## Team Activity

**Team Goal:** To devise a classroom code of ethics

**Team Assignment:** Classroom Conduct

- Your team should devise a top-10 list of rules for ethical behaviour for use in the classroom.
- Your team's list should be creative while still being practical.
- The team that is judged to have the best list will win this competition.
- Your teacher will determine the criteria for winning.

## Portfolio

What major ethical issues have affected companies in your industry? Collect newspaper articles, Internet reports, or magazine features that comment on them and illustrate how one or two of these companies dealt with the ethical dilemmas they faced.

Report on the corporate social responsibility efforts of two of the companies in your selected industry.

Outline the impact of your industry on your community. Ask the question, "What would happen to my community if the industry I am studying disappeared?"

## Reflect on Your Learning

**Now that you understand more about ethics and ethical behaviour, why do you think that acting ethically is so difficult for some people and businesses? Can ethics be simplified into one rule?**

# INTERNATIONAL PROFILE

## Gap Inc.

In the late 1960s, when Don Fisher was unable to find a decent pair of jeans that fit, he and his wife, Doris, decided that it was time that shopping became easier.

The couple imagined a store that would cater to the individual by providing a far greater range of styles and sizes than most casual wear retailers (at that time) supplied. So in 1969, Don and Doris tackled the issue head on and founded a business that would eventually become one of the world's largest specialty retailers. The name that they

chose for this new store was Gap. Since the creation of its first San Francisco-based store, Gap Inc. has become responsible for the operation of more than 3000 stores located in cities around the globe, including the United States, Canada, the United Kingdom, France, and Japan, where employees collectively number in the range of 15 000.

The current president and CEO of Gap Inc. is Paul Pressler, who, in 2002, took over the positions from Millard Drexler, who became Donald Fisher's successor in 1995. Although Gap was the first clothing brand to be offered by Gap Inc., three additional brands have since been included in the company's roster: namely, Banana Republic,



Gap Inc. has stores throughout the world.

Old Navy, and Forth & Towne. The financial success of Gap Inc. was almost instant and has continued to grow. In 1970 sales were US\$2 million and in 2005, revenue reached US\$16 billion.

In addition to being widely recognized as a retailer of popular apparel, Gap Inc. has received much attention for its partnerships with various organizations promoting human rights for workers worldwide and supporting environmental and social causes, including the Social Accountability International's Corporate Involvement Program, the United Nations' Global Compact, and the Ethical Trading Initiative.

In fact, Gap Inc. was ranked by Business Ethics magazine in 2006 as among the "100 Best Corporate Citizens."

However, Gap Inc. has not always received such impeccable publicity in terms of its ethics reviews. In 1995, Mandarin International, a Taiwanese-owned factory located in El Salvador that manufactured Gap clothing, was exposed for labour code violations and poor working conditions. Although Gap Inc. denied having any knowledge of the human rights abuses, the company became the target of intense campaigning in Canada, the United States, and El Salvador, where labour organizations and solidarity groups called for Gap Inc. to improve the working conditions at Mandarin International. As a result, one year after the incident, Gap Inc. partnered with three independent organizations to form the Independent

Monitoring Working Group. It also developed its Code of Vendor Conduct, which is based on internationally accepted labour standards. Such initiatives marked the beginning of Gap Inc.'s solid commitment to creating long-term change in third-party garment factories.

In addition to the social responsibilities that Gap Inc. has taken upon itself, Gap Foundation, the non-profit charitable arm of the business, has been providing assistance to underserved communities around the world since 1977. In fact, between 2000 and 2004 alone, the foundation donated a total of US\$60 million in cash grants, with the primary focus on supporting children and youth.

## QUESTIONS

1. What was the response of Gap Inc. after the exposure of human rights abuses at Mandarin International in 1995?
2. How is Gap Inc. now involved in promoting safe environments for workers in third-party garment factories?