

## Chapter 2

### Business Ethics and Code of Ethics



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### What is Business Ethics?

- Business ethics consist of moral principles, values, and standards that guide behavior in the world of business.



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## Arguments Supporting Business Ethics

- Ethics applies to all human activities.
- Business cannot survive without ethics.
- Ethics is consistent with profit seeking.
- Studies suggest ethics does not detract from profits and seems to contribute to profits.
- Customers, employees, and people in general care about ethics.

## Managerial Ethics

- **Managerial Ethics:**
  - The standards of behavior that guide individual managers in their work with:
    - Employees.
    - Customers,
    - Competitors, stockholders, suppliers, dealers, and unions.

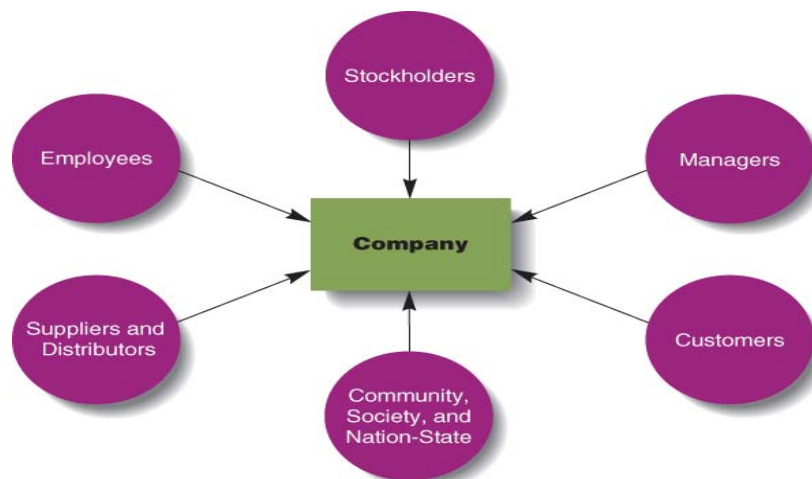
## Stakeholders and Ethics

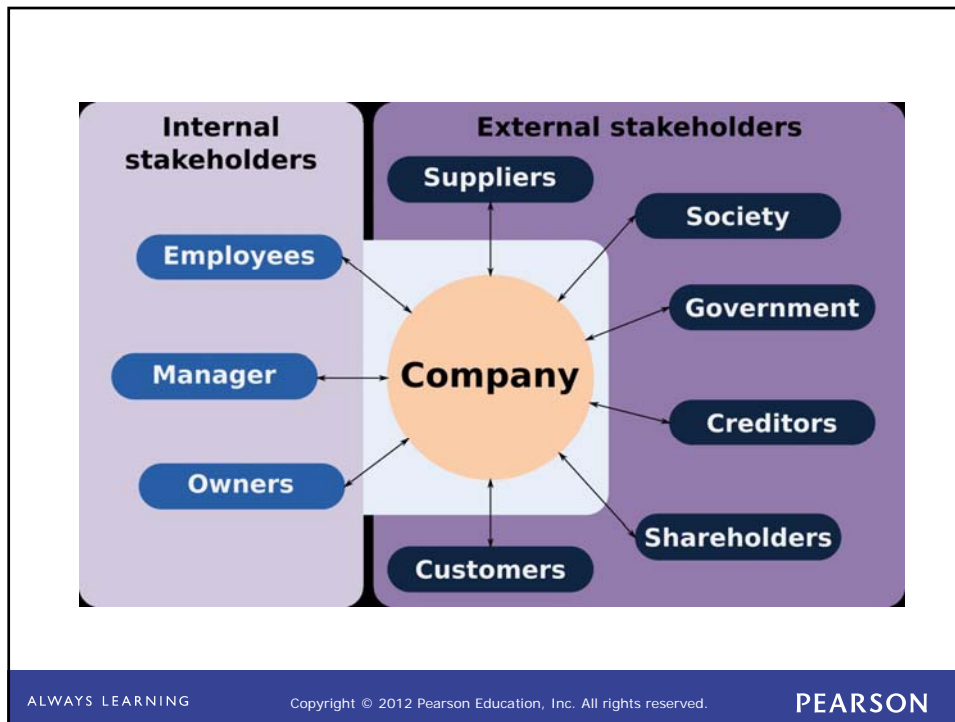
- **Stakeholders :**

A person, or organization that has direct or indirect stake in an organization because it can affect or be affected by the organization's actions, objectives, and policies. **Key stakeholders include:**

- Customers, directors, employees, shareholders, suppliers ,..... etc.

## Types of Company Stakeholders





## Stakeholders and Ethics

### 1. Stockholders ethical expectations:

- Want to ensure that managers are behaving ethically and ....
- **not risking investors'** capital by engaging in actions that could hurt the company's reputation.
- Want to maximize their return on investment.

## Stakeholders and Ethics

### 2. Managers ethical expectations:

- Responsible for using a company's financial capital and human resources to increase its performance.
- Have the right to expect a good return or reward by investing their human capital to improve a company's performance.
- Frequently manage multiple interests.

## Stakeholders and Ethics

- Problem has been that in many companies corrupt managers focus not on building the company's capital and stockholder's wealth but on maximizing their own personal capital and wealth.

## Stakeholders and Ethics

### **3. Employees ethical expectations:**

- Expect to receive rewards consistent with their performance.
- Companies can act ethically toward employees by creating a working structure that fairly and rightfully rewards employees for their contributions.

## Stakeholders and Ethics

### **4. Suppliers ethical expectations:**

- Suppliers expect to be paid fairly and promptly for their inputs.

### **5. Distributors ethical expectations:**

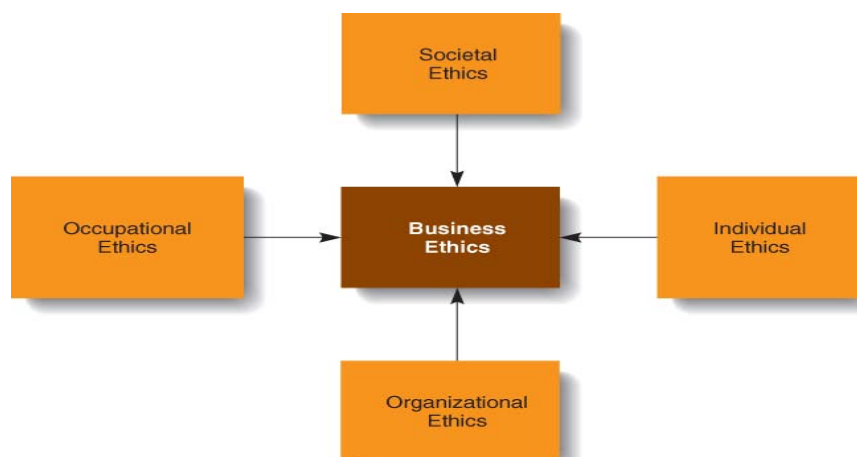
- Distributors expect to receive quality products at agreed-upon prices.

## Stakeholders and Ethics

### 6. Customers ethical expectations:

- Company must work to create loyal customers and attract new ones through satisfying ethical needs of the customers.
  - Quality
  - Price
  - Customer service

## Sources of Business Ethics



## Sources of Business Ethics

### **1. Societal (Society) Ethics:**

- Standards that direct how members of a society should deal with one another in matters involving issues such as fairness, justice, and the rights of the individual.
- People behave ethically because they have certain values, beliefs, and norms.

## Sources of Business Ethics

### **2. Occupational Ethics:**

- Standards that direct how members of a profession should conduct themselves when performing work-related activities.
- Medical and legal ethics.



## Sources of Business Ethics

### **3. Individual Ethics:**

- Personal standards and values that determine how people view their responsibilities to other people and groups.
- How they should act in situations when their own self-interests are at risk.

## Sources of Business Ethics

### **4. Organizational Ethics:**

- Guiding practices and beliefs through which a particular company and its managers view their responsibility toward their stakeholders.
- Top managers play a crucial role in determining a company's ethics.

## Company Practices and Business Ethics

A company can encourage ethical behavior in a number of ways. **These include:**

1. Adopting written **code of conduct** (ethics)
2. Having top management support of ethical standards.
3. Instituting ethics programs.
4. Establishing ethical hotlines for reporting and discussing unethical behavior and activities.



## Code of Ethics

- **Code of ethics:** is a written document that clearly states what are acceptable and unacceptable behaviors for all employees in the organization, and with all stakeholders.
- Employees working under the code of ethics have a standard by which they can judge their own behavior and that of others within the organization.
- **Formal ethics codes usually include penalties for breaking the code.**

## Code of Ethics

- **Factors influencing the development of Code of ethics :**
  - Social factors
  - Personal factors
  - Organizational factors
  - Occupational factors

## Benefits of a Code of Ethics

- Enhances reputation .
- Builds trust – internally and externally.
- Increases awareness of ethics issues.
- Guides decision-making .
- Reduces ethics risks .
- Questionable behavior decreases .
- Employee relations improve .
- Competitive positions improve

## Informal and formal codes

- Most small businesses do not have a formal written code of ethics.
- Employees understand the **informal codes** by observing how management acts in workplace situations such as how customers are treated.
- **Formal code** : is a written document that clearly states what are acceptable and unacceptable behaviors for all employees in the organization, and with all stakeholders

## Code of Ethics and Stakeholders

- Code allows firm to state its ethical vision to all stakeholders.
- Companies should consider four ethical values when developing a code of ethics:
  - Integrity .
  - Justice .
  - Proficiency .
  - Utility .

## Steps for Effective Code of Ethics

- **Step 1 :**
- Create a list of all the standards by which you believe your company should take. Write them down on a piece of paper. **This should include :**
- The general values of the company, managers, and workers.
- The ways in which the company helps with employees' continued education; and how the business complies with all laws and reports all legal issues.

### Steps for Effective Code of Ethics

- **Step 2 :**

Customize your code of ethics to your business. Include examples from your firm into the code.

- If, for example, you use a code of ethics from another business in your industry, rewrite the code so it has meaning and, therefore, benefit to your goals.

### Steps for Effective Code of Ethics

- **Step 3 :**

- Involve employees in the creation of a business code of ethics. Every employee has insight into the day-to-day operations and challenges. If, **for example**, a department experiences low confidence because of office gossip (نميمة), help employees find productive ways to build a culture of trust and respect.

## Steps for Effective Code of Ethics

- **Step 4 :**
- Write down "Code of Ethics".
- A code of ethics should be to the point, and simple to read. It should have a positive tone and focus on improving the lives of the business' directors, employees, and customers.

## McDonald's Code of Ethics



## McDonald's Code of Ethics for Employees

- Worldwide, McDonald's employees follow a standard ethical code.
- With franchises all over the world, McDonald's has developed a uniform standard of conduct that applies to all employees.
- It requires the employee, upon being hired, to sign a copy of these expectations of ethical conduct, confirming that the employee understands them and agrees to implement them.

## McDonald's Expectations

- **Employee Responsibilities :**
- To perform to the highest standards set by the company, employees must treat fellow workers, supervisors and customers with respect.
- An employee cannot bother anyone or threaten them. offensive behavior is not allowed.
- Employees cannot insult others with words or actions.
- Employees must practice safety at all times to ensure not only his well-being but that of others.
- Alcohol or illegal drugs are forbidden.



## McDonald's Expectations

- **Responsibility to the Company:**
- During training, employees learn that they cannot use any company assets for personal reasons.
- Computers should not be used for personal emails or for accessing illegal or inappropriate material.
- McDonald's owns not just the computers but the information entered into them, and is entitled to investigate their contents.