



Fourth Edition

Canadian Business and Society

ETHICS, RESPONSIBILITIES, & SUSTAINABILITY



ROBERT W. SIXTY

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**Professor Emeritus, Faculty of Business Administration
Memorial University of Newfoundland**





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Dedication

To Suzanne, who has travelled with me through five books including many editions—and to more than 60 countries on seven continents!

About the Author

Dr. Robert Sexty was a Professor of Business Administration at the Faculty of Business Administration at Memorial University of Newfoundland for 39 years, and was awarded a *Professor Emeritus* title in 2008. He holds bachelor, masters, and doctoral degrees in Business Administration from the University of Alberta, Queen's University, and the University of Colorado, respectively. Sabbatical years have been spent at the Harvard Business School, Boston, and the University of Auckland, New Zealand. He was awarded one of the “2001–2002 Leaders in Management Education Awards” sponsored by the *National Post* and PricewaterhouseCoopers.

At Memorial, Robert Sexty taught Business Policy (Strategic Management), Introduction to Business, and Business and Society (Business Ethics) courses at the undergraduate and graduate levels. He developed, and has taught, the strategy and business and society courses in Athabasca University's Electronic MBA Program. He has taught numerous management development seminars and workshops on many management topics, including strategic management and the ethics of business.

Robert Sexty is the author of *Issues in Canadian Business*, the fourth edition of which was published in 1998 as *Canadian Business in the New Stakeholder Economy*. He is also the co-author of *Exploring Strategic Management*, published in 1989, and *Contemporary Management in Canada*, published in 1992, 1995, and 1998. A fourth book, *Canadian Business and Society: Understanding the Social and Ethical Challenges*, was published in January 1995.

Robert Sexty is a past President of the Administrative Sciences Association of Canada, and is a member of, and active in, many academic and professional associations. He consults in the area of strategic planning and management for business, government, and non-profit organizations, and acts as a facilitator in sessions for management groups and boards of directors. He has served on the Boards of Directors of the Egg Farmers of Canada, East Coast Trail Association, and Anglican Homes Inc.

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Preface

The Philosophy of the Book

Ethics is all the rage throughout society these days; the ethics of business is no exception. Today, integrity is important to business performance and acceptance by society. Society expects business' adherence to moral standards such as honesty, fairness, and justice. This book provides a broad overview of the Canadian business system and society's expectations of it.

The book's title emphasizes "business and society" in addition to three key words: ethics, responsibilities, and sustainability. The ethics of business refers to the rules, standards, codes, values, or principles that provide guidance for morally appropriate behaviour in managerial decision-making relating to the operation of businesses and business's relationship with society. Business is accepted by society as long as it recognizes the responsibilities in its operations and considers the needs and desires of society. The result has been increasing obligations with business agreeing to do more. Sustainability represents a management approach that integrates economic, ethical, and environmental responsibilities into all management systems.

The corporation—the main business institution—accepts the necessity for integrity in business and recognizes the accompanying responsibilities. Throughout the book, the term *corporation* is used to represent business enterprises. The formal and legal entity of the corporation does not supply all the goods and services to society, but it is by far the principal business institution.

The ethics and responsibilities of business in society are connected to the concept of *stakeholders*, individuals or organizations that influence the corporation and/or that are influenced by the corporation. This concept will be described fully in the book and is key to the connection to or linkage between business and society.

Fourth Edition Changes

There have been revisions to all chapters with the most substantial being Chapters 3, 4, 10, 11, and 16. Chapter 3 now covers the identification of stakeholders and issues while Chapter 4 covers stakeholder and issue analysis. Chapter 10 has been renamed to reflect a more focused discussion of regulation, "Regulating Business' Ethics and Responsibilities." The emphasis is less on government regulation with additional discussion of market and self-regulation. In Chapter 11 the discussion of ownership types has been reduced and replaced with topics reflecting the influence of owners for social and environmental responsibilities. The chapter's title has been changed to "Responsible Ownership and Governance" to indicate the role of owners in social responsibility. Chapter 16 has been revised to focus on new concepts emerging in business and society. The new title is "The Socialization of Capitalism" which is the process through which the business system conforms to the expectations of society resulting in desired socially responsible outcomes.

New topics and the enhancement of existing ones include: social media (Chapter 1); income and gender inequality (Chapter 2); animals as stakeholders (Chapter 3); issue salience analysis (Chapter 4); robots and ethics (Chapter 5); ethical leadership forms (Chapter 6); government ethical framework policy and ethics and taxation (Chapter 10); management information circulars (Chapter 11); and the fourth sector, sharing economy, for-benefit and B-corporations, and sustainable capitalism (Chapter 16). Other changes are identified in the the following overview of the book's contents.

Overview of the Book's Contents

The topics covered in the book represent a consensus on the current subjects making up the business and society field. Business and the corporation operate within various societal environments,¹ and these environments provide a basis for the book's organization.

- **Business Environment**—The description of the business environment is given in Chapters 1, 2, and 16. Chapter 1, "The Relationship between Business and Society," provides an overview to the book and describes the concept of *business and society*. Other topics covered in this chapter include an outline of the Canadian business system, the role of the corporation, the stakeholders responsible for operating corporations, a brief introduction to ethical thinking, and society's acceptance of business. Chapter 2, "Ethics and Capitalism," describes the fundamentals of capitalism upon which the Canadian business system is based. It is important to understand these fundamentals, as the ethical implications associated with them reappear throughout the book. Finally, Chapter 16, focuses on new developments in the relationship between business and society.

- **Stakeholder Environment**—Chapters 3, 4, 11, 12, and 13 focus on stakeholders and their relationships with business and the corporation. Chapter 3, “Identifying Stakeholders and Issues,” gives a detailed list of a corporation’s stakeholders and the rationale for the stakeholder concept. The following chapter, “Stakeholder and Issue Analysis,” advances the discussion of stakeholders by presenting approaches to the corporation’s interrelationships with stakeholders. Although stakeholders are referred to throughout the textbook, some are studied in more detail. Owners and directors in Chapter 11, “Responsible Ownership and Governance”; employees, consumers, competitors, and suppliers in Chapter 12, “Ethics and Responsibilities in the Workplace and Marketplace”; and non-governmental organizations, media, think tanks, religious organizations and education institutions in Chapter 13, “Civil Society Stakeholders.”
- **Ethical Environment**—The ethical environment is addressed in two chapters: Chapter 5, “Ethics of Business: The Theoretical Basis,” and Chapter 6, “Ethics of Business: Management and Leadership.” The former chapter outlines several theoretical ethical principles that will assist in understanding and analyzing moral dilemmas and integrity issues confronting business and the corporation. The latter chapter takes a pragmatic approach to outlining the managerial techniques or methodologies of ethics programs in corporations.
- **Social Environment**—Similar to the approach taken with the ethical environment, the social environment is discussed from theoretical and practical perspectives. Chapter 7, “Corporate Social Responsibility: The Concept,” describes the various theories of social responsibility that can be used when analyzing issues and cases throughout the book. In Chapter 8, “Corporate Social Responsibility: In Practice,” the approaches taken by corporations to implement their social responsibilities are outlined.
- **Regulatory Environment**—Business and the corporation are accountable to stakeholders as they are influenced by them in various ways. In effect, this is a form of regulation of the corporation. Chapter 9, “Measuring, Reporting, and Communicating CSR,” identifies auditing processes used by corporations in reporting how they respond to their economic, stakeholder, ethical, and social environments. Chapter 10, “Regulating Business’ Ethics and Responsibilities,” identifies the range of regulation—from government legislation and policies through to self-regulation performed by industry associations and the corporation itself. Corporate governance is, in effect, the regulation or oversight of the corporation’s activities provided by the board of directors. Corporate governance has been reformed in recent years, with emphasis placed on the corporation’s ethics and responsibilities.
- **Ecological Environment**—The natural or ecological environment is considered in Chapter 14, “The Environment and Business Responsibilities.” Ecology is a major issue involving many responsibilities and thus is discussed as a separate chapter.
- **International Environment**—The international environment, also referred to as *globalization*, involves many ethical issues and responsibilities. Chapter 15, “Globalization and Business Responsibilities,” outlines how globalization is impacting almost every business and identifies how corporations are responding.

The business and society field can be described through the primary frameworks that are identified and discussed in an article by Schwartz and Carroll as:

- Corporate society responsibility
- Business ethics
- Stakeholder management
- Sustainability
- Corporate citizenship²

The contents are also consistent with the new domain statement for the Academy of Management’s Social Issues in Management Division which “studies the social issues, institutions, interactions, and impacts of management.” In particular, the Division addresses: individual and organizational ethics; organizational and systemic governance; and stakeholder behaviours, relationships, and systems.³

The frameworks are covered throughout the book and, with the environments described above, provide a comprehensive and contemporary view of the ethics, responsibilities, and sustainability of business.

Features and Benefits of the Book

- **A unique approach.** Each chapter offers unique materials or extensive descriptions of various topics as they relate to the ethics, responsibilities, and sustainability of business. Ethics refers to the fairness and integrity with which business functions in society; responsibilities refers to the increasing obligations that business is agreeing to undertake in society; and sustainability represents a management approach that integrates economic, ethical, and environmental responsibilities into all management systems.

- **A building approach.** The sequence of the chapters and the concepts covered enable students to learn about business and society incrementally. Thus, concepts relating to capitalism and the economic responsibilities of the corporation are introduced early, followed by the stakeholder concept. This body of knowledge is key to understanding the subsequent chapters. Similarly, theoretical material is followed by managerial practice in the social and ethical environments and becomes the basis for understanding the discussions in parts IV and V.
- **A focus on Canadian content.** The material in the book emphasizes Canadian content; it is an indigenous manuscript rather than a conversion of an American or European text.
- **Business and managerial perspectives.** The book is written from the perspective of business and managers, as they have to cope with social, ethical, and environmental responsibilities while also having to meet economic responsibilities. The materials are not intended to make judgments about business behaviour, but instead to increase the understanding of businesspersons and managers of their influence on society and of society's influence on business. Both good and undesirable examples of business behaviour are presented.
- **Non-profit sector included.** Non-profit organizations also play a role in business and society. This sector is represented by stakeholders such as non-governmental organizations, educational institutions, religious groups, and charities. These stakeholders are important in social responsibility initiatives described throughout the book but particularly in Chapters 7, 8, and 9. Most of Chapter 13, "Civil Society Stakeholders," is devoted to non-profit stakeholders. Chapter 16 includes a discussion of the interaction between business and the non-profit sector.
- **A student perspective.** Efforts have been made to present materials, vignettes, example inserts, and cases to which students can relate. Students are the future business leaders and managers and must understand the dynamic relationship between business and society and the ethics and responsibilities involved. More emphasis has been put on the ethics, responsibilities, and sustainability of students, in business programs, and at educational institutions.
- **"Learn more" boxes.** Readers who want to know more about certain topics are directed to "Go to Connect" where applicable.

Chapter 1

- Adam Smith
- Corporate wrongdoing in Canada
- Academic integrity

Chapter 2

- The right to intellectual property
- Inequality and why it is an issue for business
- Business fundamentals and the story of The Little Red Hen

Chapter 3

- Saint Homobonus
- Assessing information about stakeholders
- Identifying and engaging stakeholders

Chapter 4

- The principles of stakeholder management
- Matrix mapping
- Influence strategies

Chapter 5

- Ayn Rand
- Ethics cowboy style
- Your ethics

Chapter 6

- Giving voice to values

- A guide to practical ethics
- Business ethics by joining a blog

Chapter 7

- Sustainability
- *Corporate Knights*
- CSR jobs

Chapter 8

- Most socially responsible corporations in Canada
- Canadian corporate volunteerism
- CSR and small business

Chapter 9

- Trusting business
- Evaluating sustainability reports
- CSR in Canadian business

Chapter 10

- Your view of government regulation
- Lobbying government
- Canadian taxation policies

Chapter 11

- What shareholders are demanding of corporations
- Shareholder democracy
- Investment scams and frauds

Chapter 12

- Privacy in the workplace
- Ethical products and services
- Sustainability in supply chains

Chapter 13

- Digital protest movements
- “Watch” sites
- The efforts of OpenMedia.ca to keep the Internet affordable

Chapter 14

- The “tragedy of the commons”

- Calculating your carbon footprint
- An environmental folk song

Chapter 15

- The International Principles for Responsible Investment
- Transparency International
- Global corporate corruption

Chapter 16

- Types of capitalism
- Canadian social enterprises
- The sharing economy

Encouraging Critical Thinking

Critical thinking is a higher-order intellectual, purposeful thought and action process. It integrates inquiry, reflection, and deliberation to facilitate more thorough and meaningful learning. This book enables students to accomplish this in several ways: by introducing new ideas and concepts, linking ideas to illustrations, addressing issues from different perspectives, and exposing readers to new sources of information. The concepts, theories, and illustrations allow students to use their skills to clarify facts, assess information, formulate and defend their own intellectual positions, and develop appropriate courses of action. The pedagogical approaches listed below encourage student critical thinking. The Instructor’s Manual provides teachers with additional materials that will enhance this process.

Pedagogy: User Approach

- **Learning Outcomes.** At the beginning of each chapter, numbered Learning Outcomes are listed. These tie in with the numbered section headings in each chapter.

LEARNING OUTCOMES

After studying this chapter, you will be able to:

- LO 4.1** Explain stakeholder analysis in an organization.
- LO 4.2** Describe stakeholder management capability.
- LO 4.3** Understand stakeholder matrix mapping.
- LO 4.4** Discuss the diagnostic typology of organizational stakeholders.

- **In-depth examples.** Instead of inserting numerous but short one- or two-sentence examples in the text, this book takes a different approach. Lengthier boxed inserts allow for more discussion of the examples. The two types of boxes are Everyday Ethics and Responsibility for Ethics.
- **Everyday Ethics** boxes provide examples not only of best practices, but also of inappropriate or questionable practices. More than 20 new Everyday Ethics boxes have been included and all the remaining ones updated. Instructors are provided with additional information to facilitate classroom discussion in the Instructor’s Manual and online.

EVERYDAY ETHICS 5.3



The Ethics of Robots

A robot is defined as an engineered machine that senses, thinks and acts. More autonomous robots are being created and a challenge exists relating to how robots face ethical decisions, that is, how can they be designed to make moral judgments. Robots are presently used in manufacturing, the military, and automated aircraft, trains, and motor vehicles. From a consumer perspective, driverless cars and robo financial advisors are being designed. There will be increasing use of robots in the areas of research, entertainment, medicine and personal care.

- **Responsibility for Ethics** boxes refer to or describe individuals, organizations, practices, or concepts that affect or influence the behaviour of business leaders, managers, or corporations. Most describe the roles or influence of stakeholders. Thirteen new Responsibility for Ethics boxes have been included and the remaining ones updated.

RESPONSIBILITY FOR ETHICS 11.10



Best Corporate Governance Practices

Each year *The Globe and Mail* identifies the best corporate boards in Canada. The criteria used in assessing the Boards of Directors included:

- Board Composition—the percent of independent directors, board diversity, in particular, the number of women, and the approach to evaluation of directors.
- **Opening vignettes.** All vignettes are original and based on Canadian materials and examples. Each chapter begins with a real-world situation that introduces the chapter content. All require an individual to respond to an issue or dilemma. Five new vignettes are included in this edition and several others have been revised.

What would you do if... ?

George Lafontaine had always been an enthusiastic Volkswagen (VW) customer. As a young man, he drove a Beetle, then as he got older he purchased a Golf, then a Jetta, and most recently a Passat. It was time for George to purchase a new car, but he was hesitating at buying another Volkswagen. He had heard some disturbing news about VW's use of software manipulation devices to avoid regulated emissions standards. At first it was believed to be an isolated incident, the result of a few rogue employees. But, investigations by the media and others found that this was not the case. In fact, some believed that unethical behaviours were common in the auto industry.

- **“Your Advice to . . .” boxes.** These boxes have been placed before each chapter summary and relate back to the chapter's opening vignette.

Your advice to George. . .

George likely feels that he has been let down by the corporation and he likely has doubts about CSR. The issue is whether or not VW's reputation has been damaged so severely that he may not trust the corporation. He has not been personally harmed financially, but the environment is suffering because of VW's deliberate unethical behaviour. The challenge for George is how he can assess and believe the CSR claims of VW and for that matter, the claims of any automobile corporation. Unfortunately, some corporations become so focused on a goal, in this case to become the world's largest car manufacturer, that they are willing to ignore their own CSR policies.

- **End-of-chapter cases.** Cases relevant to the chapter content can be found in the end-of-chapter material. The cases are of two types: (1) descriptive of an issue in business and society to which management must respond and can be used as a basis for discussion; and (2) decision making in that the student faces a dilemma that must be addressed. Fourteen new cases are included in this edition, and many others have been altered and updated.

Cases

8.1 RESPONSIBLE ALCOHOL CONSUMPTION

Twelve producers of beer, wine and spirits have formed an industry association, Producers' Commitments, dedicated to the reduction of harmful drinking. The five key areas to be addressed are: reducing underage drinking; strengthening and expanding marketing codes of practice; providing consumer information and responsible product innovation; reducing drinking and driving; and enlisting the support of retailers to reduce harmful drinking. They also support the World Health Organization's (WHO) *Global Strategy to Reduce Harmful Use of Alcohol*. Two members of the association are Diageo plc and Molson Coors.

- **"Learn more" boxes.** Boxed features directing readers who want to know more about certain chapter topics to "Go to Connect" are included where applicable.



Want to learn more about **what shareholders are demanding of corporations?**

- **Critical Thinking and Discussion Questions.** Every chapter ends with a set of questions that challenge the students to apply the concepts they have learned in each chapter. Some questions require students to think on their own to understand and evaluate concepts and, in some instances, to apply them appropriately. Other questions are designed to generate discussion and the articulation of different points of view.

Critical Thinking and Discussion Questions

1. Is the work ethic concept relevant in today's workplace?
 2. Why should employees be loyal to the corporation? How does the corporation express its loyalty to employees?
 3. What does the corporation gain from workplace diversity?
 4. To what extent does the consumer sovereignty concept apply in today's marketplace?
 5. Are consumers adequately protected in the marketplace?
 6. What are the pros and cons when competition results in the failure of a business?
- **Ethics, Responsibilities, and Sustainability Cases.** Longer cases are included that allow for more in-depth discussion of issues and dilemmas relating to the ethics, responsibilities and sustainability of business. The cases are of two types: (1) descriptive of an issue in business and society to which management must respond and can be used as a basis for discussion of the issue; and (2) decision making in that the student faces a dilemma that must be addressed. Two new cases are provided.

Energy Drinks at Prairie Pharmacy¹

Victor Lukasik has just taken over the operation of the family drug store, Prairie Pharmacy. The pharmacy was started by his grandfather and carried on by his father, who now is semi-retired working as a relief or part-time pharmacist. The pharmacy was located in a Western Canada community of about 5,200 that was also served by a large retail drugstore chain. Despite the competition, Prairie Pharmacy continued to prosper because the loyalty of long-time customers and its personalized service. The pharmacy had started as a prescription filling outlet and sold a few over the counter medications. Over the years, the pharmacy had grown and now sold a large variety of over-the-counter medications, snack food, candies and soft drinks, cosmetics, greeting cards, magazines, and personal care products. It had a Canada Post franchise outlet.

The book's contents have been developed and designed to make the study of Canadian business and society attractive and challenging. The capitalist business system exists in Canada and the ethics, responsibilities, and sustainability of business must be studied in this context. Ethical challenges do exist, and corporations should be held accountable for the responsibilities they have to Canadians. Increasingly, Canadian business is moving toward corporate sustainability strategies. It is hoped this book will increase students' understanding of Canadian business and society.

MARKET LEADING TECHNOLOGY



Learn without Limits

McGraw-Hill Connect® is an award-winning digital teaching and learning platform that gives students the means to better connect with their coursework, with their instructors, and with the important concepts that they will need to know for success now and in the future. With Connect, instructors can take advantage of McGraw-Hill Education's trusted content to seamlessly deliver assignments, quizzes and tests online. McGraw-Hill Connect is the only learning platform that continually adapts to each student, delivering precisely what they need, when they need it, so class time is more engaging and effective. Connect makes teaching and learning personal, easy, and proven.

Connect Key Features:

SmartBook®

As the first and only adaptive reading experience, SmartBook is changing the way students read and learn. SmartBook creates a personalized reading experience by highlighting the most important concepts a student needs to learn at that moment in time. As a student engages with SmartBook, the reading experience continuously adapts by highlighting content based on what each student knows and doesn't know. This ensures that he or she is focused on the content needed to close specific knowledge gaps, while it simultaneously promotes long-term learning.

Connect Insight®

Connect Insight is Connect's new one-of-a-kind visual analytics dashboard—now available for both instructors and students—that provides at-a-glance information regarding student performance, which is immediately actionable. By presenting assignment, assessment, and topical performance results together with a time metric that is easily visible for aggregate or individual results, Connect Insight gives the user the ability to take a just-in-time approach to teaching and learning, which was never before available. Connect Insight presents data that empowers students and helps instructors improve class performance in a way that is efficient and effective.

Simple Assignment Management

With Connect, creating assignments is easier than ever, so instructors can spend more time teaching and less time managing.

- Assign SmartBook learning modules.
- Instructors can edit existing questions and create their own questions.
- Draw from a variety of text specific questions, resources, and test bank material to assign online.
- Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever.

Smart Grading

When it comes to studying, time is precious. Connect helps students learn more efficiently by providing feedback and practice material when they need it, where they need it.

- Automatically score assignments, giving students immediate feedback on their work and comparisons with correct answers.
- Access and review each response; manually change grades or leave comments for students to review.
- Track individual student performance—by question, assignment or in relation to the class overall—with detailed grade reports.
- Reinforce classroom concepts with practice tests and instant quizzes.

Integrate grade reports easily with Learning Management Systems including Blackboard, D2L, and Moodle.

Instructor Library

The Connect Instructor Library is a repository for additional resources to improve student engagement in and out of the class. It provides all the critical resources instructors need to build their course.

- Access Instructor resources.
- View assignments and resources created for past sections.
- Post your own resources for students to use.

INSTRUCTOR RESOURCES

- **Instructor's Manual:** Includes comments on each chapter's opening vignette, material by section with the objective for each section, additional notes/materials/suggestions for instructors, responses to discussion questions, analysis of cases, additional resources such as references to case studies relevant for each chapter, video resources, and assignments/questions.

The IM also provides additional information on the **Everyday Ethics** and **Responsibility for Ethics** boxes. The boxes are considered a key aspect of the text. Rather than give hundreds of one-line examples, the examples/illustrations in the

boxes give more detailed information, and are constructed so that instructors can use them for discussion purposes or assignments. Features found throughout the boxes include:

- Discussion questions
 - Additional information
 - Suggested assignments for students
 - Updated information
 - Internet links and related sites
- **Computerized Test Bank:** Our ground-up, comprehensive Computerized Test Bank is flexible and easy-to-use. Instructors can create tests from book-specific items, including a wide range of question types (true/false, multiple-choice, essay questions), and add their own questions. Multiple versions of the test can be created, and any test can be exported for use with WebCT, BlackBoard, or any other course management system.
 - **PowerPoint™ Presentation Slides:** These visually stimulating slides provide an overview using illustrations, definitions, and examples, focusing on the primary concepts in each chapter.

eBook

Connect reinvents the textbook learning experience for the modern student. Every Connect subject area is seamlessly integrated with Connect eBooks, which are designed to keep students focused on the concepts key to their success.

- Provide students with a Connect eBook, allowing for anytime, anywhere access to the textbook.
- Merge media, animation, and assessments with the text's narrative to engage students and improve learning and retention.
- Pinpoint and connect key concepts in a snap using the powerful eBook search engine.
- Manage notes, highlights, and bookmarks in one place for simple, comprehensive review.

SUPERIOR LEARNING SOLUTIONS AND SUPPORT

The McGraw-Hill Education team is ready to help instructors assess and integrate any of our products, technology, and services into your course for optimal teaching and learning performance. Whether it's helping your students improve their grades, or putting your entire course online, the McGraw-Hill Education team is here to help you do it. Contact your Learning Solutions Consultant today to learn how to maximize all of McGraw-Hill Education's resources.



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CHAPTER 1

The Relationship between Business and Society

LEARNING OUTCOMES

After studying this chapter, you will be able to:

- LO 1.1** Describe the complexity of the interrelationships between business and society.
- LO 1.2** Define the terminology relating to the integrity of business.
- LO 1.3** Differentiate between the three main approaches to ethical thinking.
- LO 1.4** Provide a brief description of the Canadian business system.
- LO 1.5** Explain the role of the corporation as the main economic institution in the business system.
- LO 1.6** Recognize that business operates with the consent of society.
- LO 1.7** Summarize factors that influence society's attitudes toward business that lead to criticisms of the system.
- LO 1.8** Identify the three stakeholders mainly responsible for the operation of Canadian businesses.
- LO 1.9** Understand the relationship between business and academic integrity.
- LO 1.10** Describe the integration of business and society.

What would you do if...?

Angela Clegg was in the second month of her business program. She was enjoying the courses and interacting with her student colleagues. She was having a good time and felt that she had made a correct decision to enter the program.

When Angela announced that she was taking business, many of her friends questioned the wisdom of her choice by pointing out various business misdeeds. They said that the financial crisis in 2008–09, and the economic downturn that followed, was caused by the greed and mismanagement of bankers, particularly in the United States and Europe. Her friends pointed out that insult had been added to injury when taxpayers, through their governments, had to bail out some banks and automobile companies. Several other examples presented to her involved financial advisers who destroyed people's life savings with fraudulent Ponzi schemes; massive recalls of automobiles, especially Toyotas and VWs; environmental damage of the Alberta oil sands; excessive executive compensation schemes; and numerous plant closures throwing thousands out of work. Lastly, her friends said there are no ethics in business and that "business ethics" is an oxymoron.

These arguments did not discourage Angela. She was aware of ethics in business and society and of social responsibility from the extensive coverage they were receiving in the media. The media frequently carried stories about business ethics and social responsibility. Many corporations even took out advertisements in newspapers, including Angela's campus newspaper, describing the contributions they were making to the community. Also, Angela had participated in the Junior Achievement program in high school and enjoyed developing and operating a small venture.

During a student society meeting, Angela heard about an interesting proposal—"The First Year Pledge of Social Justice, Economic Strength, and Environmental Responsibility":

I pledge that during my years in higher education I will explore and take into account the social, economic, and environmental consequences of my behaviour and that of my institution. I will learn about issues of environmentalism, social justice, and economic strength, and will try to promote a sustainable and just society both at my institution and in the wider world.

The pledge was developed in the United States but seemed applicable to Canadian business students. The purpose of the pledge was to increase awareness of social responsibility among students through teaching and by encouraging them to undertake social initiatives while in school. Examples given of such initiatives included counselling entrepreneurs on ethics, organizing recycling projects on campus, assisting Aboriginal business enterprises, and developing financial literacy programs for teens and seniors. It was argued that a business program would be given added meaning through participating in these initiatives rather than merely relying on the completion of courses.

Angela had some questions about the pledge proposal. Would it make any difference? In particular, would her friends view her goals to succeed in business any differently? Would anyone recognize or respect the pledge? What would be expected of her?

What is your advice to Angela?

Sources: North Carolina Campus Compact, *Digest*, April 2009, <http://org.elon.edu/nccc/news/ResourcesApril09.html>; and "Combining First-Year Engagement and Civic Engagement," *Inside Higher Ed*, January 28, 2008, <http://www.insidehighered.com/news/2008/01/28/engage>.

Ethical implications are present in all facets of life, and business and society is no exception. For this reason, students of business should learn about ethics in the relationship between business and society. This chapter gives some background on the setting for understanding the complexity of the relationship. The factors influencing morality in Canadian business are identified. The role of the corporation is outlined, as it is the principal institution in the business system along with the three main stakeholders in the governance and management of the corporation—owners, boards of directors, and managers. Society has expectations of business, and various factors influence society's attitudes toward business. The possible connection between academic integrity and the ethics of business is also discussed.

LO 1.1**The Complexity of Business and Society**

Canadian business and society is a fascinating topic. It involves studying the history and background of the Canadian business system in addition to examining the contemporary issues confronting business. It is very important to obtain all the viewpoints that contribute, or should contribute, to what business' role will be in society. Canadian society comprises many institutions and groups that interact, including governments, labour unions, minority groups, environmentalists, consumers, the communications media, business organizations, and a variety of interest groups or non-governmental organizations. All have an important role to play, and all, in some way, influence business decision making. This book emphasizes several things about the Canadian business system, with certain goals in particular:

1. To increase awareness of the system by describing Canadian capitalism, the stakeholders involved, and society's attitudes toward business;
2. To identify business' response to its role in society by examining who owns and runs business corporations, how business has incorporated ethics and responsibilities into its operations, and how business manages its role;
3. To learn how business corporations have responded to many challenges in their environment; and
4. To address the above from the perspective of the manager or owner of a corporation to emphasize the dynamic nature of the environment in which they manage.

Rather than focusing on what is right or wrong beyond any doubt, the emphasis in this text is on the appropriate analysis of problems and issues using information from a variety of sources, including the conflicting and maybe erroneous perceptions of various parties as to the motives, strategies, and tactics of others. Since we are dealing with so many individuals and organizations, perceptions of business vary—from the very negative attitudes held by some political parties and non-governmental organizations to the very positive attitudes held by business-oriented groups.

The issues that arise as a result of these differing perceptions and points of view are not easily resolved. Solutions are not always straightforward or simple, and tend to be less than optimum for all involved. Trade-offs are a factor, and what is an appropriate solution for one group is not as appropriate for another. An optimum solution is still sought, but it is certainly realized that each group in society will not benefit to the maximum.

A shift has occurred in what society believes business responsibilities should be, and at the same time many corporations are recognizing that they must respond to this belief if they are to survive and continue to be profitable. As a result, corporations are considering the following in their relationship to society:

- Business corporations should meet humanity's needs without harming future generations.
- Social responsibility or corporate sustainability reports published should move beyond the public relations exercises they may have been in the past.
- Increasing numbers of stakeholders are demanding corporations account for more than economic responsibilities.
- Progressive and innovative responses to social, ethical, and environmental responsibilities constitute a valuable intangible asset.
- Executives must have the skills and competencies to manage these additional responsibilities successfully.
- Responses to these responsibilities will determine the corporations that will survive.¹

One attempt at measuring the responsiveness of corporations is the *Corporate Knights Magazine's* annual ranking of the best corporations in Canada described in *Everyday Ethics 1.1*.

EVERYDAY ETHICS 1.1**Canada's Best Corporate Citizens**

Annually, *Corporate Knights Magazine* identifies the 50 best corporate citizens in Canada. In 2015, the five top-ranking corporations were Tim Hortons, Vancouver City Savings Credit Union, Mountain Equipment Co-op, Teck Resources Limited, and Telus Corp.

Corporations are evaluated on twelve key performance indicators covering resource, employee and financial management.

- Energy consumption
- Direct/indirect GHG emissions
- Water withdrawal
- Waste produced
- Taxes paid
- Percentage of women on board of directors and in management positions
- Executive compensation tied to clean capitalism
- CEO compensation as a multiple of average worker wages
- Employee safety performance
- Innovation capacity measured by R&D expenditure
- Employee turnover
- Pension fund status

Source: For indicator details refer to “2015 Best 50 Methodology,” *Corporate Knights*, Summer 2015, accessed January 2, 2016, <http://www.corporateknights.com/magazines/2015-best-50-issue/2015-best-50-methodology-14306256>.

Most business academics and practitioners would agree that the business system is progressing in the right direction. However, other stakeholders would suggest that business is changing too slowly or not at all. The next section, “Integrity in Business,” discusses the appropriateness of the business relationship to society.

LO 1.2

Integrity in Business

In the business environment, **integrity** refers to the appropriateness of a corporation’s behaviour and its adherence to moral guidelines acceptable to society such as honesty, fairness, and justice. Integrity is the same as acting ethically, but without the negative connotation, the moralizing tone, or the sense of naiveté. According to De George, “Acting with integrity means both acting in accordance with one’s highest self-accepted norms of behaviour and imposing on oneself the norms demanded by ethics and morality.”² Managing with integrity means that business leaders behave in a manner consistent with their own highest values and norms of behaviour, which are self-imposed but at the same time not arbitrary or self-serving. De George states behaviour need not be perfect either: “The imperative to act with integrity cannot insist on moral perfection. It can and does demand taking ethical considerations seriously.”³ Throughout this book, how business enterprises accomplish integrity is discussed and evaluated.

Some fundamental points are to be made about integrity in business. Ethics exist throughout society and are not unique to business. When referring to *business ethics*, what is meant is the ethics that apply to business. It does not mean there is a special kind of ethics peculiar to business and not applicable elsewhere in life. Thus, the phrase “ethics of business” is used in this book unless referring to another work or spokesperson.

Key terminologies relating to integrity in business are listed in Table 1.1. Many definitions for these terms exist; the table provides the basics to assist in understanding their usage prior to reading about them in more detail in the chapters identified within square brackets.

In this book, some assumptions are made about the integrity of business:

- Ethics apply to business in the same manner as they do in any other institution in society, for example public administration, politics, religious organizations, the professions, and the legal, health, and educational systems. There are no ethics unique to business; it is only the issues and settings that are different.
- The appropriateness of behaviour is examined in terms of the ethical implications of addressing issues or decisions and of the distribution of harms and benefits to the relevant stakeholders.
- Integrity results in the **responsible corporation**, a business undertaking that responds to social, ethical, and environmental responsibilities in addition to its economic obligations. Everyday Ethics 1.2 illustrates how Canadian National Railway Company describes its efforts as a responsible corporation.

TABLE 1.1 Key Terminology Relating to Integrity in Business

Ethics of business: The rules, standards, codes, or principles that provide guidance for morally appropriate behaviour in managerial decision making relating to the operation of the business enterprise's and business' relationship with society. [Chapters 5 and 6] It is broadly defined to include corporate social responsibility (CSR), corporate sustainability (CS), triple bottom line, corporate citizenship, corporate governance, accountability, and environmental stewardship. [Chapters 7, 8, 9, 11, 14]

Stakeholder: An individual or group who can influence and/or is influenced by the achievement of an organization's purpose. [Chapters 3 and 4]

Corporate social responsibility (CSR): The way a corporation achieves a balance among its economic, social, and environmental responsibilities in its operations so as to address stakeholder expectations. [Chapter 7]

Corporate sustainability (CS): Corporate activities demonstrating the inclusion of social and environmental as well as economic responsibilities in business operations as they impact all stakeholders to ensure the long-term survival of the corporation. The term *sustainability* was first used in the context of environmental sustainability, but corporate sustainability has the wider meaning and includes economic, ethical, and social responsibilities as well. The difference from CSR is that the responsibilities are completely integrated to the structure, policies, and operations of the corporation. [Chapters 7, 16]

Triple bottom line: The triple-E bottom line (3E) is the evaluation of a corporation's performance according to a summary of the economic, social or ethical, and environmental value the corporation adds or destroys. A variation is the triple-P bottom line (3P), which is an evaluation of the corporation's performance according to people, planet, and profits. [Chapter 7]

Corporate citizenship: A corporation demonstrating that it takes into account its role in and complete impact on society and the environment as well as its economic influence. [Chapter 7]

EVERYDAY ETHICS 1.2



Delivering Responsibly at Canadian National Railway Company (CN)

CN's 2014 Sustainability Report used the theme of "Delivering Responsibly" as a key dimension for what the company stands for. This dimension is involved in what it does every day: "moving customer goods safely and efficiently, ensuring environmental stewardship, attracting and developing the best railroaders, adhering to the highest ethical standards and building safer, stronger communities."

CN's sustainability strategy covers:

Governance: We are committed to the highest standards of ethical business conduct.

Environment: We conduct our operations in a manner that protects the natural environment.

People: We are focused on providing a safe, supportive work environment that values diversity, respect, integrity and pride.

Safety: We are committed to safeguarding employees, assets, customers and the communities in which we operate at all times.

Community: We contribute to communities through our impact on economic development, outreach in communities and community investment programs, including the numerous safety initiatives that we support."

These assumptions do not mean that business is not involved in wrongdoing or in inappropriate behaviour, as will be pointed out throughout the book. The responses to the issues created relating to the ethics of business and society are usually complex, with implications for many stakeholders. Sometimes the actions, solutions, or outcomes are unsatisfactory to society, in which case business may be required to change its behaviour or may voluntarily change its behaviour.

In order to assess the integrity of business and corporations, a brief overview of some approaches to ethical thinking are presented.

LO 1.3

Main Approaches to Ethical Thinking

Not everyone understands or interprets ethics in the same way, and thus disagreement exists as to the appropriate behaviour by business in society. Many decisions involving ethics are made automatically without thinking, based on individual value standards and judgments and not ethical principles. Unfortunately, automatic decisions cannot be relied upon. Different countries, cultures, and religions may define right and wrong differently. More complexity results in situations where no option is clearly right, giving rise to dilemmas where effort is required to sort out right versus wrong. For some dilemmas, the choice might be between what some would consider two wrongs. Sometimes, because of the challenges presented, it is preferable to have different views of what is right or wrong.

Throughout history, ethicists have described various theories and principles to help understand the ethics of decision making. The difficulty is that numerous theories exist and some even have multiple interpretations. This section describes the three dominant approaches to normative theories of ethics: deontological, teleological, and virtue ethics.

In **deontological ethics**, or rule-based theories of ethics, actions are ethical if done for the sake of what is good without regard for the consequences of the act. Decisions are based upon duty and adherence to universal principles. In other words, individuals have a duty to do the right thing even if the consequences of another action are preferable. It is most important to act in a way in which one would like to see others act in the same or similar circumstances. A variation of deontology is broadened to the societal level, where individuals are born with natural rights possessed equally. But it is difficult to determine the rights to possess. Another variation is based on the principles of justice used to meet a “veil of ignorance” test. That is to say, a rule is just if everyone agrees to it is made ignorant of their position in society, thereby eliminating personal bias and guaranteeing fairness. A universal rule would result that could be used in similar circumstances and treating everyone with respect.

Teleological ethics, or consequential theories of ethics, focus on the outcomes or results of actions. A well-known variation is utilitarianism, which is based on utility or usefulness. The approach looks to the end results and individuals make decisions based on the consequences of the action. The decision is believed to be good if the end result is good. A decision is to result in the greatest good or happiness for the greatest number, and allows for bad consequences or harms. This approach is used every day by individuals and in business to view the relative outcomes; that is, the distribution of harms and benefits. Thus, moral character depends upon the practical matter relating to the extent to which actions benefit or harm those involved.

The third approach is **virtue ethics**, which emphasizes the character or identity of the individual and focuses upon *being* rather than *doing*. Morality is based on the development of good character traits or virtues and assumes that a good person will perform ethically. There are dozens of desirable traits; nine were listed by Aristotle—wisdom, prudence, justice, fortitude, courage, liberality, magnificence, magnanimity, and temperance. Virtue ethics acknowledges that absolute rules are unlikely to apply in all situations. Dozens of possible virtues exist, and the approach does not focus on which sorts of actions are morally permitted and which ones are not. An illustration is provided by responses to the question, “What virtues make a good businessperson or leader?” Possible answers include foresight, courage, commitment, compassion, respectfulness, and honesty. Table 1.2 compares the three approaches, all of which are applicable to the ethics of business as any other facet of life and society. In Chapter 5, these and other approaches to assessing ethical implications will be described.

This brief introduction to theoretical approaches to understanding ethics can be used to assess the behaviour of Canadian business, corporations, and managers. Ethical dilemmas often exist where the choice is between what those involved consider two right responses—or, put in the negative, two wrong responses. Different approaches can result in two responses where benefits are bestowed on some stakeholders and harms to others. Thus, no matter which choice is made, some stakeholders will consider it “wrong.”

TABLE 1.2 Comparison of Approaches to Ethical Thinking

Deontological or Rule-Based Theories	Teleological or Consequential Theories	Virtue Ethics
<p>Description:</p> <ul style="list-style-type: none"> • Focus on moral obligations, duties, and rights • Rules should guide decision making and behaviour • More individualistic focus, as individuals should be treated with respect and dignity <p>Limitation:</p> <ul style="list-style-type: none"> • Allows individuals to avoid responsibility as they are following rules or orders <p>Example: Categorical Imperative</p> <ul style="list-style-type: none"> • Respect for individuals, treating them as ends, not as means to ends • Test: Would you do the same thing in similar circumstances? <p>Ethicists:</p> <ul style="list-style-type: none"> • Immanuel Kant • John Locke • John Rawls 	<p>Description:</p> <ul style="list-style-type: none"> • Focus on goals, outcomes, or results • Emphasizes maximum benefit and minimum harm • Considers all stakeholders impacted <p>Limitation:</p> <ul style="list-style-type: none"> • Difficult to calculate benefits and harms and apply weights to each <p>Example: Utilitarianism</p> <ul style="list-style-type: none"> • Greatest good for the greatest number • Aims to produce the most net utility; that is, benefits versus harms • Provides a group or societal perspective <p>Ethicists:</p> <ul style="list-style-type: none"> • John Stuart Mill • Jeremy Bentham 	<p>Description:</p> <ul style="list-style-type: none"> • Based on character of individual • If individual has good traits or virtues, decisions will be good or ethical • Virtuous characteristics come into play when resolving ethical dilemmas <p>Limitation:</p> <ul style="list-style-type: none"> • Disagreement over what are virtues; that is, how a virtue is defined <p>Ethicists:</p> <ul style="list-style-type: none"> • Plato • Aristotle • Revived recently by several ethicists including Robert Solomon

LO 1.4 The Canadian Business System

Every country has an **economic system** defined as an arrangement using land, labour, and capital to produce, distribute, and exchange goods and services to meet the needs and wants of people in society. The objective of an economic system is to use a society's resources to meet the society's needs. The Canadian business system produces, markets, distributes, and exchanges goods and services to satisfy society's needs and wants. The majority of goods and services demanded by Canadians are provided by a private-sector economic system or capitalism. Most Canadians feel it is desirable to allow individual businesspersons and corporations—rather than some centralized government agency—to provide the goods and services they require. Business institutions have a history in Canada of more than 450 years, and their role in our economic and social development has been substantial. But, it is a role in a continuous state of change.

Terminology is a problem in discussing a business enterprise system. The following list provides definitions of some frequently mentioned terms:

- **Capitalism**—An economic system that allows for private ownership of the means of production (land, labour, and capital) and assumes that economic decision making is in the hands of individuals or enterprises who make decisions expecting to earn a profit. An early advocate of capitalism was Adam Smith, whose views are still influential as described in Responsibility for Ethics 1.1.