

# BUSINESS ESSENTIALS

EIGHTH CANADIAN EDITION

RONALD J. EBERT

UNIVERSITY OF MISSOURI-COLUMBIA

RICKY W. GRIFFIN

TEXAS A&M UNIVERSITY

FREDERICK A. STARKE

UNIVERSITY OF MANITOBA

GEORGE DRACOPOULOS

VANIER COLLEGE AND MCGILL UNIVERSITY

PEARSON

Toronto

Editorial Director: Claudine O'Donnell  
Acquisitions Editor: Carolin Sweig  
Marketing Manager: Lisa Gillis  
Program Manager: Karen Townsend  
Project Manager: Jessica Hellen  
Developmental Editor: Paul Donnelly  
Media Developer: Kelli Cadet  
Production Services: Mohinder Singh, iEnergizer Aptara®, Ltd.  
Permissions Project Manager: Joanne Tang  
Photo Permissions Research: Melody English, Integra  
Text Permissions Research: Renae Horstman, Integra  
Interior and Cover Designer: Anthony Leung  
Canadian Skyline Image: Mary Beth MacLean  
Cover Image: © peshkova - Fotolia.com  
Vice-President, Cross Media and Publishing Services: Gary Bennett

Credits and acknowledgments for material borrowed from other sources and reproduced, with permission, in this textbook appear on the appropriate page within the text.

Original edition published by Pearson Education, Inc., Upper Saddle River, New Jersey, USA. Copyright © 2015, 2013, 2011, 2008 Pearson Education, Inc. This edition is authorized for sale only in Canada.

If you purchased this book outside the United States or Canada, you should be aware that it has been imported without the approval of the publisher or the author.

This work is produced by Pearson Canada Inc. and is not endorsed by any trademark owner referenced in this publication.

Copyright © 2017, 2014, 2012, 2009, 2006, 2003, 2000, 1997 Pearson Canada Inc. All rights reserved. Manufactured in the United States of America. This publication is protected by copyright and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. To obtain permission(s) to use material from this work, please submit a written request to Pearson Canada Inc., Permissions Department, 26 Prince Andrew Place, Don Mills, Ontario, M3C 2T8, or fax your request to 416-447-3126, or submit a request to Permissions Requests at [www.pearsoncanada.ca](http://www.pearsoncanada.ca).

10 9 8 7 6 5 4 3 2 1 [V0RJ]

#### Library and Archives Canada Cataloguing in Publication

Ebert, Ronald J., author

Business essentials / Ronald J. Ebert (University of Missouri-Columbia), Ricky W. Griffin (Texas A&M University), Frederick A. Starke (University of Manitoba), George Dracopoulos (Vanier College and McGill University).—Eighth Canadian edition.  
Includes bibliographical references and index.

ISBN 978-0-13-400009-1 (paperback)

1. Industrial management—Textbooks. 2. Business enterprises—Textbooks. 3. Industrial management—Canada—Textbooks.
4. Business enterprises—Canada—Textbooks. I. Griffin, Ricky W., author II. Starke, Frederick A., 1942-, author
- III. Dracopoulos, George, 1970-, author IV. Title.

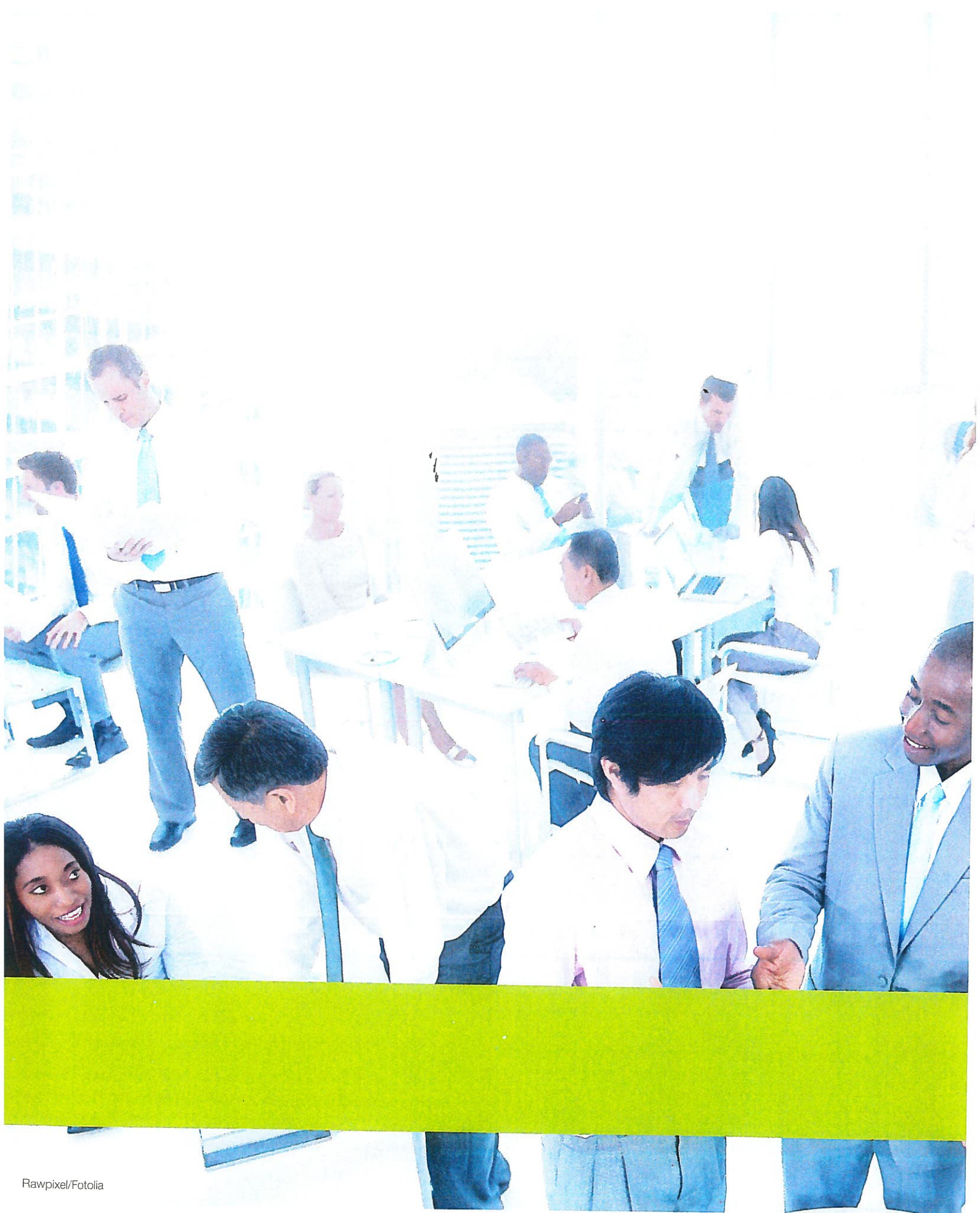
HD70.C3E32 2016

658

C2015-906519-4

**PEARSON**

ISBN 978-0-13-400009-1



AFTER READING THIS CHAPTER, YOU SHOULD BE ABLE TO:

- LO-1 Explain how individuals develop their personal *codes of ethics* and why ethics are important in the workplace.
- LO-2 Distinguish *ethics* from *social responsibility* and identify *organizational stakeholders*.
- LO-3 Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.
- LO-4 Identify four general *approaches to social responsibility* and describe the four steps a firm must take to implement a *social responsibility program*.
- LO-5 Explain how issues of social responsibility and ethics affect small businesses.

# What's Happening in the Fair Trade Movement?

The "fair trade" movement tries to ensure that small farmers in developing countries receive fair prices for their crops. Canadian consumers know about fair trade products such as coffee and chocolate, but the fair-trade logo can also be found on many other products, including sugar, cotton, rice, gold, and cut flowers. Several fair-trade programs are sponsored by Fairtrade Labelling Organizations International (FLO), a global non-profit network of fair-trade groups headquartered in Germany. FLO works with cooperatives representing producers of commodities like coffee in Latin America and chocolate in Africa to establish standards for the producers' products and operations, and pushes for socially relevant policies such as enforcing child labour laws and providing education and health care services. In return, FLO guarantees producers a "Fairtrade Minimum Price" for their products. If the market price falls below that level, FLO covers the difference. If the market exceeds that price, FLO pays producers a premium.

The money to do this comes from the importers, manufacturers, and distributors who buy and sell commodities from FLO-certified producers. These companies are, in turn, monitored by a network of FLO-owned organizations called TransFair, which ensures that FLO criteria are met and that FLO-certified producers receive the fair prices guarantee by FLO. Products that meet the appropriate FLO-TransFair criteria bear labels attesting they are "Fair Trade Certified."

Importers, manufacturers, and distributors have an incentive not only to adopt FLO-TransFair standards, but also to incur the costs of subsidizing overseas producers, because they get the right to promote their products as fair trade. And these categories typically command premium retail prices. When consumers know that they are supporting programs to empower farmers in developing countries, sellers and resellers can charge higher prices. A 100 g chocolate bar labelled "organic fair trade" may sell for \$3.49, compared to about \$1.50 for one that's not.

## Conducting Business Ethically *and* Responsibly

CHAPTER.

03.

The fair-trade movement came about partly because of significant negative publicity about the bad working conditions of workers who pick cocoa beans in Ivory Coast, a small Africa country that provides over 40 percent of the world's chocolate. Most of it is produced on small farms scattered throughout

the country. Chocolate comes from small beans that grow on cocoa trees, and it takes about 400 beans to make a pound of chocolate. To harvest the beans, labourers must chop them from the trees, slice them open, scoop out the beans, spread them on mats, and cover them to ferment. Once the beans are fermented, they're dried, packed in bags, and carried to waiting trucks. At that point, they've entered the supply chain that will take them to Canada, the United States, or Europe, where they'll be turned into all sorts of chocolate products, including Snickers candy bars and Breyer's Double Fudge Brownie ice cream.

### HOW WILL THIS HELP ME?

There is a growing dilemma in the business world today: the economic imperatives (real or imagined) facing managers versus pressures to function as good citizens. By understanding the material in this chapter, you will be better able to assess ethical and social responsibility issues that you will face as an *employee* and as a *boss* or *business owner*. It will also help you understand the ethical and social responsibility actions of businesses you deal with as a *consumer* and as an *investor*.

15 000 of them—work 12 hours a day, seven days a week. They are often beaten to maintain productivity quotas, and they sleep on bare wooden planks in cramped rooms. Most of them were tricked or sold into forced labour, many by destitute parents who couldn't afford to feed them. Efforts to alleviate the problem have met with little success.

Enslaving children became business as usual in the Ivory Coast cocoa industry because the country is heavily dependent on world market prices for cocoa (one-third of the country's economy is based on cocoa exports). Since cocoa prices fluctuate significantly on global markets, profitability in the cocoa industry depends on prices over which farmers have no control. To improve their chances of making a profit, producers look for ways to cut costs, and the use of slave labour is one way to do that.

The action the fair-trade movement has taken to protect these and other workers in developing countries is a positive step, but two recent developments are creating concerns about its effectiveness. First, a split has developed in the movement that may dilute what the term "fair trade" means. There are now two competing organizations: the original Fairtrade International (which allows only democratically organized groups of farmers



Kaband/Shutterstock

Reports issued by the United Nations Children's fund say that much of the labour involved in Ivory Coast chocolate production is performed by boys ranging in age from 12 to 16. These child labourers—perhaps as many as



Chunumunu/Fotolia

to be certified) and a new Fair Trade USA (which allows commodities from privately owned businesses to be certified). Consumers may be confused by the competing labels, because products that don't meet the standards of Fairtrade International are appearing on the shelves of Canadian stores with the Fair Trade USA label on them.

The second development is a very surprising study from the School of Oriental and African Studies (SOAS) at London University. The study found that workers at Fairtrade farms were actually paid less than workers on non-Fairtrade farms. In addition, workers at Fairtrade farms were required to pay bribes in order to get jobs, suffered abusive treatment on the job, were exposed to harmful pesticides, and received less sick leave, fewer paid holidays, and poor health and safety training. The Fairtrade Foundation said there were flaws in the study.

Other critics of fair trade agree in principle with those who advocate its use, but contend that consumers don't need to be paying higher prices for fair-trade products.

They point out that, according to TransFair's own data, cocoa farmers get only 3 cents of the \$3.49 that a socially conscious consumer pays for a fair trade-certified candy bar. Most of the premium goes to intermediaries. Other critics say that sellers of fair-trade products are taking advantage of consumers who are socially conscious, but not price-conscious. They point out that if sellers priced that \$3.49 candy bar for \$2.49 instead, farmers would still get just 3 cents per bar. The price is inflated to \$3.49 simply because there is a small segment of the market willing to pay that price.

#### • QUESTIONS FOR DISCUSSION •

1. Do you think fair-trade is a good solution to child labour and related problems? Explain.
2. Are you willing to pay more for fair-trade products? Why or why not?
3. Under what circumstances could unethical parties abuse the fair trade concept?

## ETHICS IN THE WORKPLACE

The situation described in the opening case clearly demonstrates the controversy that often arises when dealing with the issue of ethics in business. **Ethics** are beliefs about what is right and wrong or good and bad. An individual's personal values and morals—and the social context in which they occur—determine whether a particular behaviour is perceived as ethical or unethical. In other words, *ethical behaviour* is behaviour that conforms to individual beliefs and social norms about what is right and good. *Unethical behaviour* is behaviour that individual beliefs and social norms define as wrong and bad. **Business ethics** is a term often used to refer to ethical or unethical behaviours by a manager or employee of a business.

### LO-1 Individual Ethics

Because ethics are based on both individual beliefs and social concepts, they vary from person to person, from situation to situation, and from culture to culture. But there are some commonalities. For example, most societies view stealing as wrong. But what if you happen to see someone drop a \$20 bill in a store? Most people would probably say that it would be ethical to return it to the owner, but some might think it is OK to keep it. There will be even less agreement if you find \$20 and don't know who dropped it. Should you turn it in to the lost-and-found

department? Or, since the rightful owner isn't likely to claim it, can you just keep it?

It is important to make the distinction between *unethical* and *illegal* behaviour. A given behaviour may be ethical and legal (e.g., providing high-quality products to consumers), ethical and illegal (e.g., breaking the law in a totalitarian regime in order to carry out humanitarian efforts), unethical and legal (e.g., paying low wages to workers at a company facility in a foreign country), or unethical and illegal (e.g., "cooking the books" to make a company's financial situation look better than it really is). Some of these distinctions are controversial. Consider the case of Netsweeper, a Canadian company that sells web-filtering products that block pornography and computer viruses. That sounds good, but what if these products are used by a repressive government to block information it doesn't want its citizens to see (e.g., information on human rights)? While it is perfectly legal for Netsweeper to sell the software, critics argue that the sales are unethical because the company knows its products can be misused.<sup>1</sup>

Making ethical judgments is also complicated by the fact that practices that are legal in one country may not be legal in another. For example, selling Nazi memorabilia online is legal in the United States, but not in Germany. In some cultures, ethically ambiguous practices are hallmarks of business activity. Brazilians, for example, apply the philosophy of *jeitinho*—meaning "to find a way"—by using personal connections, bending the rules, or making a "contribution."<sup>2</sup> If you need to get an official document, you might start out determined to take all the proper bureaucratic steps to get it. However, if you find yourself in a complex maze of rules and regulations and think you'll never get your document, you may resort to *jeitinho* to get the job done.

**ETHICS** Individual standards or moral values regarding what is right and wrong or good and bad.

**BUSINESS ETHICS** Ethical or unethical behaviours by a manager or employee of an organization.

## INDIVIDUAL VALUES AND CODES

The ethical views of individuals in a business—managers, employees, agents, and other legal representatives—are determined by a combination of factors. We start to form ethical standards as children in response to our perceptions of the behaviour of parents and other adults. When we enter school, peers and the entertainment media also shape our lives and contribute to our ethical beliefs and our behaviour. We also develop values and morals that influence our behaviour. If you put financial gain at the top of your priority list, you may develop a code of ethics that supports the pursuit of material comfort. But if you put a high priority on family and friends, you'll probably adopt different standards.

Because ethics are both personally and culturally defined, differences of opinion arise as to what is ethical or unethical. For example, people who would never think of stealing a candy bar from a grocery store may think it perfectly legitimate to take home pens and pads of paper from their workplace. Many otherwise law-abiding citizens have no qualms about using radar detectors to avoid speeding tickets. In each situation, people will use different standards of ethics and will argue that their actions are ethical. These difficulties have led some observers to conclude that individuals can rationalize almost any behaviour as ethical.

## Managerial Ethics

**Managerial ethics** are the standards of behaviour that guide individual managers in their work.<sup>3</sup> Although ethics can affect managerial work in any number of ways, it's helpful to classify behaviour in terms of three broad categories.

## BEHAVIOUR TOWARD EMPLOYEES

There are important ethical questions with regard to issues like hiring and firing, wages and working conditions, and privacy. In Canada, ethical and legal guidelines state that hiring and firing decisions should be based solely on a person's ability to perform a job. A manager who discriminates against any ethnic minority in hiring therefore exhibits both unethical and illegal behaviour. But what about the manager who hires a friend or relative when someone else might be more qualified? Such decisions may not be illegal, but in Canada they may be seen as objectionable on ethical grounds. But they are not necessarily seen as unethical in some other countries.

Wages and working conditions are also areas for debate. Consider a manager who pays a worker less than what is deserved because the manager knows that the employee can't afford to quit. While some people will see that behaviour as unethical, others will see it as simply smart business.

Protecting the privacy of employees is another area where there are ethical implications. In Canada, the Personal Information Protection and Electronic Documents Act (PIPEDA) requires organizations to obtain consent before they collect, use, or disclose information about individuals. Many people see these guidelines as necessary and useful, but others view them as yet another example of bureaucratic red tape and government interference in business.

## BEHAVIOUR TOWARD THE ORGANIZATION

Ethical issues also arise with respect to employee behaviour toward employers. A **conflict of interest** occurs when an activity benefits an employee at the expense of the employer. For example, suppose the

shoe buyer for a large department store chain accepts a free vacation from a shoe manufacturer. If the manufacturer then asks the buyer to increase the size of an order, the buyer may feel an obligation to do so. The buyer might also conclude that more large orders will result in another vacation next year. Most companies have policies that forbid buyers from accepting gifts from suppliers. Businesses in highly competitive industries—software or fashion apparel, for example—have safeguards against designers selling company secrets to competitors. Relatively common problems in the general area of honesty include behaviour such as stealing supplies, padding expense accounts, and using a business phone to make personal long-distance calls. Most employees are honest, but organizations must be vigilant.

## BEHAVIOUR TOWARD OTHER ECONOMIC AGENTS

Ethical disputes often arise in the relationship between a company and its customers, competitors, stockholders, suppliers, dealers, and unions. In 2012, for example, Caterpillar Inc. demanded that union workers at its London, Ontario, factory take a 50 percent wage cut in order to help the company's operations become more cost-effective. When the union refused, the company closed the plant and moved the production to the United States. Some people feel that it is unethical for a company to give employees an ultimatum like Caterpillar did, because it seems outrageous and is an attempt to make an offer to employees that the company knows they will not accept. Others would disagree and say the company has to do what it thinks is economically necessary. Another example: Businesses in the pharmaceuticals industry are often criticized because of the high prices of drugs. The companies argue that high prices are needed to cover the cost of developing new drugs, but critics argue that the companies are engaging in *price gouging* (charging unreasonably high prices).<sup>4</sup>

After a WestJet executive accessed Air Canada's confidential reservations database, WestJet admitted its actions were unethical and paid Air Canada \$5 million.<sup>5</sup> Most people would probably see the WestJet incident as a fairly clear case of unethical behaviour. But what if a manager is given confidential information by an unhappy former employee of a competitor who wants to get revenge on his former employer? Is it acceptable in that case for the manager to use the information? Some people would say it's still unethical, but others might argue that since the manager didn't go looking for the information, it's acceptable to use it.<sup>6</sup>

Difficulties may also arise because business practices vary globally. In some countries, bribes are a normal part of doing business, but in Canada (and increasingly in other countries as well), bribes are seen as clearly unethical and illegal. Several employees at SNC-Lavalin Group's Candu Energy were fired as a result of allegations of corruption, both in Canada and elsewhere,<sup>7</sup> and in 2015 the RCMP charged the company with offering millions of dollars in bribes to Libyan government officials.<sup>8</sup> In 2014, China fined drug maker GlaxoSmithKline \$489 million for bribing doctors,<sup>9</sup> and Alstom SA, a French company, agreed to pay \$772 million in fines as a result of a widespread bribery scheme that was used to help the company win energy contracts in various countries.<sup>10</sup>

A 2014 survey of global managers found that an average of 40 percent of managers felt that corruption was widespread in their

**MANAGERIAL ETHICS** Standards of behaviour that guide individual managers in their work.

**CONFLICT OF INTEREST** Occurs when an activity benefits the employee at the expense of the employer.



▲ The intense competition between Air Canada and WestJet motivated a WestJet executive to access Air Canada's confidential reservations database in hopes of gaining a competitive edge.

country (only 20 percent of Canadian managers perceived that corruption was widespread in Canada).<sup>11</sup> The Organisation for Economic Co-operation and Development (OECD) has expressed concerns about loopholes in Canada's bribery laws and the lack of enforcement of bribery penalties.<sup>12</sup> (See Chapter 5 for more information about the issue of bribery.)

## Assessing Ethical Behaviour

We can determine whether a particular action or decision is ethical or unethical by using a three-step model to systematically apply ethical judgments to situations that may arise during the course of business activities.<sup>13</sup>

1. Gather the relevant factual information.
2. Determine the most appropriate moral values.
3. Make an ethical judgment based on the rightness or wrongness of the proposed activity or policy.

Let's see how this process might work for a common dilemma faced by managers: expense account claims. Companies routinely cover work-related expenses of employees when they are travelling on company business and/or entertaining clients for business purposes. Common examples of such expenses include hotel bills, meals, rental cars, and so forth. Employees are expected to claim only those expenses that are work-related. Suppose we have the following factual information (Step 1): A manager takes a client to dinner while travelling on business and spends \$100; submitting a receipt for that dinner and expecting to be reimbursed for \$100 is clearly appropriate. Suppose, however, the manager also has a \$100 dinner the next night in that same city with a good friend for purely social purposes. Submitting the receipt for full reimbursement would be seen by most managers as unethical (but some might rationalize that it is acceptable because they are underpaid and this is a way to increase their pay).

Given this information, we need to determine the most appropriate moral values (Step 2). There are four commonly used ethical norms we can use to make this determination:

*Utility.* Does a particular act optimize what is best for those who are affected by it?

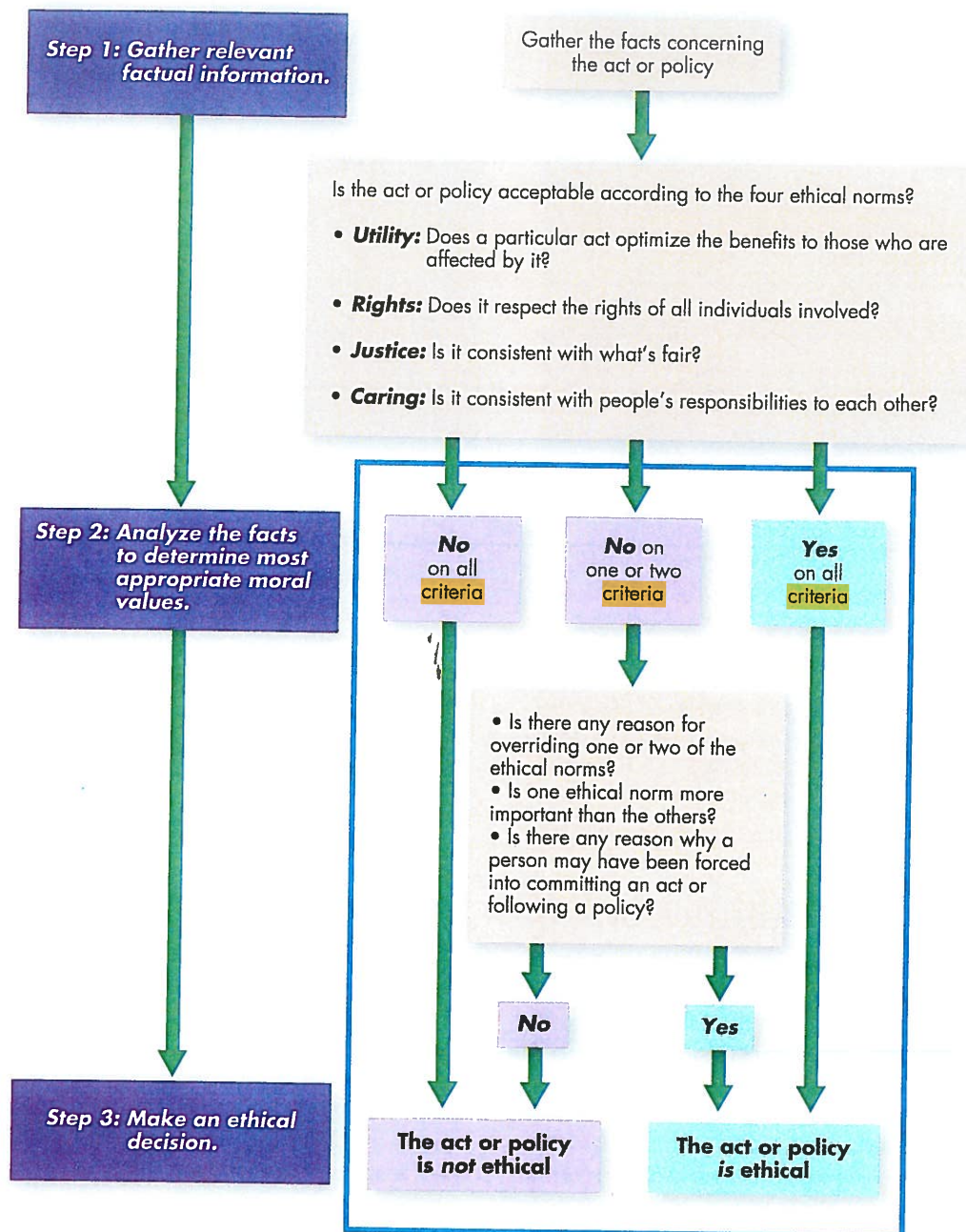
*Rights.* Does it respect the rights of the individuals involved?

*Justice.* Is it consistent with what we regard to be fair?

*Caring.* Is it consistent with people's responsibilities to each other?

Figure 3.1 incorporates these ethical norms into a model of ethical decision making. Now, let's return to the case of the expense account and make an ethical judgment (Step 3). The *utility* norm would acknowledge that the manager benefits from padding an expense account, but co-workers and owners do not. Likewise, inflating an expense account does not respect the *rights* of others. It is also *unfair* and compromises the manager's *responsibilities* to others. This particular act, then, appears to be clearly unethical. But now suppose that the manager happens to lose the receipt for the legitimate dinner but does not lose the receipt for the social dinner. Would it be ethical to submit the illegitimate receipt because the manager is only doing so to be reimbursed for what he or she is entitled to? Or is submitting the other receipt unethical under any circumstances? Changes in the factual information about the case may make ethical issues more or less clear-cut.

Technological innovations have created all sorts of new ethical dilemmas: cloning, satellite reconnaissance, email snooping, and bio-engineered foods, to name just a few. In 2015, it was discovered that Volkswagen had installed software on its diesel vehicles that could sense when the engine was being tested to see if it adhered to emissions regulations established by the Environmental Protection Agency in the U.S. The software caused the engine to function in such a way that it would pass inspection, but only for the brief time when it was being tested. For every innovation that promises convenience or safety, there seems to be a related ethical issue. The internet and email, for example, are convenient and efficient, but they present business people with a variety of ethics-related problems. For example, a manager in one company sent false emails to his workers, pretending to be a recruiter from a competing firm. Any employees who responded to the emails were skipped for promotion. Electronic communication also makes it possible to run swindles with greater efficiency than ever before. During the past few years, several individuals have been convicted for running Ponzi schemes.<sup>14</sup>



**FIGURE 3.1** Model of Ethical Judgment Making

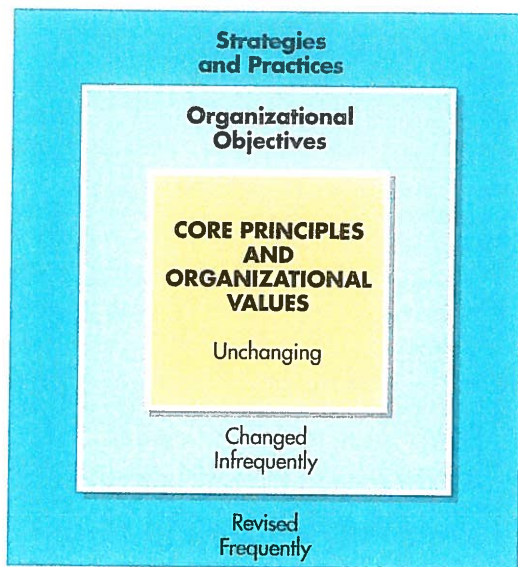
## Encouraging Ethical Behaviour in Organizations

To promote ethical behaviour, managers must understand *why* unethical behaviour occurs in the first place. Three general factors have been identified as important in causing individuals to behave in unethical ways: *pressure* (the employee has some problem that cannot be solved through legitimate means), *opportunity* (the employee uses his or her position in the organization to secretly solve the problem), and *rationalization* (the employee sees him- or herself as basically an ethical person caught up in an unfortunate situation).<sup>15</sup> To reduce the chance of unethical behaviour, organizations should *demonstrate top management commitment to ethical standards*, *adopt written codes of ethics*, and *provide ethics training to employees*.

## DEMONSTRATE TOP MANAGEMENT COMMITMENT TO VALUES AND HIGH ETHICAL STANDARDS

It is crucial that top management demonstrate a serious public commitment to high ethical standards. For example, Mountain Equipment Co-op is publicly committed to the concept of *ethical sourcing*, which means monitoring factories that produce its products to make sure that those factories are providing good working conditions for their employees. Without this ethical "tone at the top," lower-level employees are not likely to take ethics very seriously.

Figure 3.2 illustrates the essential role corporate ethics and values should play in corporate policy. It shows that business strategies and practices can change frequently and business objectives may change



**FIGURE 3.2** Core principles and organizational values

Source: Baron, David P. *Business and Its Environment*, 4th edition, © 2003. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

occasionally, but an organization's core principles and values should remain the same. For example, Google's core principle is "Don't Be Evil." Google adapts its strategies and practices to meet the challenges posed by the rapidly changing technology industry, but Google must do so in a way that does not violate its core principle.

## ADOPT WRITTEN CODES OF ETHICS

A written code of ethics formally acknowledges that a company intends to do business in an ethical manner. Codes of ethics increase public confidence in a company, improve internal operations, and help managers respond on those occasions when there are problems with illegal or unethical employee behaviour. About two-thirds of Canada's largest corporations have codes of ethics (90 percent of large U.S. firms do). More and more regulatory and professional associations in Canada are recommending that corporations adopt codes of ethics. The Canada Deposit Insurance Corporation, for example, requires that all deposit-taking institutions have a code of conduct that is periodically reviewed and ratified by the board of directors. The Canadian Competition Bureau,

the Canadian Institute of Chartered Accountants, and the Ontario Human Rights Commission are all pushing for the adoption of codes of ethics by corporations.<sup>16</sup> Many Canadian and U.S. firms are also adding a position called "ethics director" or "ethics officer."

If codes of ethics are to be effective, there must be a control system and consistent enforcement when unethical behaviour occurs. Employees will then know that the company is serious about its pursuit of high ethical standards. This is exactly what did *not* happen in the infamous Enron case. Enron had a code of ethics, but managers did not follow it. On one occasion, Enron's board of directors voted to set aside the code in order to complete a deal that would have violated it. After the deal was completed, they then voted to reinstate the code.

## PROVIDE ETHICS TRAINING

Can business ethics be "taught," either in the workplace or in schools? Business schools are important players in the debate about ethics, as they sensitize students to academic integrity issues like plagiarism and cheating and how these unethical activities harm students and the educational system. But most analysts agree that companies must take the lead in educating employees about ethics. Imperial Oil, for example, conducts workshops that help employees put Imperial's ethics statement into actual practice. More and more firms are doing ethics training where managers are reminded of the importance of ethical decision making, and are updated on the most current laws and regulations that are relevant for their firm. Mary Gentile, a management consultant, says that employees know the difference between right and wrong, but they occasionally behave in an unethical fashion because they don't know how to resist pressure from peers and bosses to behave unethically.<sup>17</sup> She provides suggestions to help individuals resist such pressure and to act out their ethical values. Some ethics training programs take a more dramatic approach; ethics seminars are taught by former executives who have spent time in prison for their own ethical misdeeds.<sup>18</sup>

Dealing with ethical issues is not a simple matter, and many companies struggle with ethical dilemmas. This is particularly true for those that operate internationally. On several occasions, dangerous working conditions have been discovered in factories in developing countries that produce goods for Western retailers. In 2013, over 1100 workers were killed when a garment factory in Bangladesh collapsed. Soon after the disaster, the Worker Rights Consortium circulated a photo of a Joe Fresh label in the debris.<sup>19</sup> In 2011, allegations were made that some products sold by Victoria's Secret contained cotton that had been produced using child labour.<sup>20</sup>

# LO-2 CORPORATE SOCIAL RESPONSIBILITY

**Corporate social responsibility (CSR)** refers to the way in which a business tries to balance its commitments to important individuals and groups in its external environment. Mountain Equipment Co-op (MEC) is an example of an organization with a strong sense of social responsibility. The company does not simply try to maximize shareholder wealth, but rather seeks a balance between financial and social/environmental goals. To demonstrate its concern for social responsibility, MEC provides a safe and healthy workplace for employees, audits suppliers who produce the products it sells, minimizes the negative impact of manufacturing and packaging on the environment, ensures that waste is disposed of in an environmentally responsible manner, treats workers with dignity, pays

workers fairly, and emphasizes energy efficiency, pollution control, and recycling potential in MEC buildings.<sup>21</sup>

Another example of social responsibility in action is the **fair-trade movement**, described in the opening case. The movement was motivated

**CORPORATE SOCIAL RESPONSIBILITY** The idea that a business should balance its commitments to individuals and groups that are directly affected by the organization's activities.

**FAIR-TRADE MOVEMENT** A movement designed to help workers in developing countries receive fair payments for their work.



Starbucks helps local farmers gain access to credit, develops and maintains sustainability of the coffee crop, and builds farmer support centres in Latin America and Africa to provide local farmers with agricultural and technical education support.

haak78/Shutterstock

by concerns that workers in developing countries who produce commodities like coffee were not receiving fair payment for their products. Companies in developed countries who are concerned about this problem work with non-profit organizations like the Fairtrade Foundation and the Rainforest Alliance, who certify that farming co-operatives are paying workers fairly and not damaging the environment. More than 5000 companies—including Kraft Foods, Avon, and Starbucks—sell products with a Fairtrade or Rainforest Alliance logo on them.<sup>22</sup>

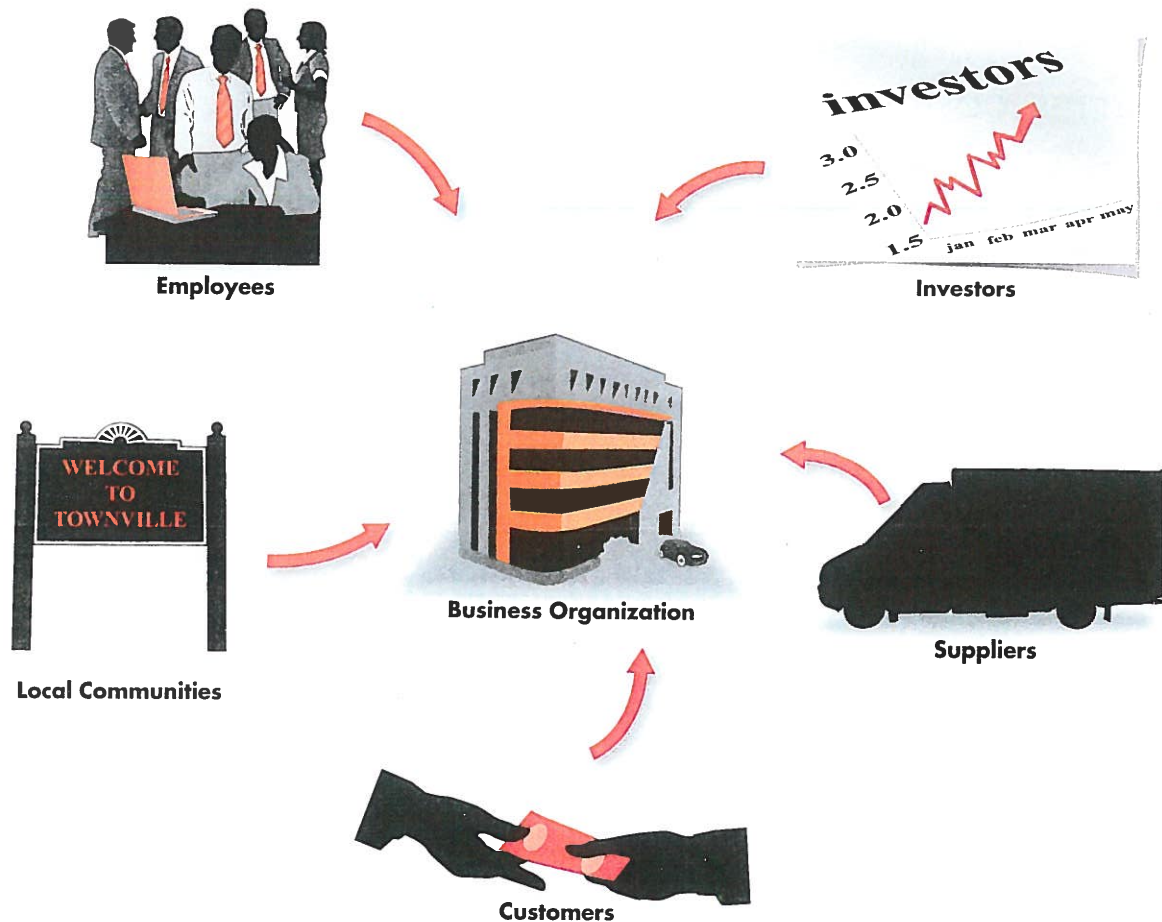
## LO-3 The Stakeholder Model of Responsibility

**Organizational stakeholders** are individuals and groups that are directly affected by the practices of an organization and therefore have a stake in its performance.<sup>23</sup> As companies put increasing emphasis on their social responsibility to stakeholders, there has been a move to go beyond traditional *financial* measures like return on investment. A new measure—called the Social Return on Investment (SROI)—has been developed which helps companies understand, manage, and communicate the *social* value of their activities for stakeholders.<sup>24</sup>

Most companies that strive to be socially responsible concentrate on the following stakeholders: (1) customers, (2) employees, (3) investors, (4) suppliers, and (5) the local communities where they do business (see Figure 3.3). They are also showing increasing concern for protecting the natural environment.

While everyone seems to accept the idea that attention must be paid to organizational stakeholders, there is debate about which should be given the most attention. One view, called *managerial capitalism*, is that a company's only responsibility is to make as much money as possible for its *shareholders*, as long as the company doesn't break any laws.

**ORGANIZATIONAL STAKEHOLDERS** Groups, individuals, and organizations that are directly affected by the practices of an organization and that therefore have a stake in its performance.



**FIGURE 3.3** Major corporate stakeholders

This view has been strongly challenged by an opposing view that says that companies must be responsible to a variety of stakeholders, including *customers, employees, investors, suppliers*, and the *local communities* in which they do business. Opponents of CSR claim that it is being imposed on businesses by a coalition of environmentalists, while supporters of CSR claim that companies have become interested in CSR because that is what consumers prefer.<sup>25</sup>

## RESPONSIBILITY TOWARD CUSTOMERS

There are three key areas that are currently in the news regarding the social responsibility of business toward customers: *consumer rights*, *unfair pricing*, and *ethics in advertising*.

**Consumer Rights** Consumerism is a movement dedicated to protecting the rights of consumers in their dealings with businesses. Consumers have the following rights:

1. *The right to safe products.* The right to safe products is not always honoured. In 2008, 20 people died after eating listeria-contaminated meat made by Maple Leaf Foods. Sales dropped by nearly 50 percent once this became public.<sup>26</sup> The government of China has become concerned that negative publicity about faulty toys and contaminated pet food and toothpaste has damaged the “Made in China” label. In a surprising development, Mattel Inc. apologized to China for claiming that a recall of 18 million playsets with dangerous magnets was necessitated by poor quality control at one of its Chinese suppliers. Mattel eventually admitted that its own product design was flawed.<sup>27</sup>
2. *The right to be informed about all relevant aspects of a product.* Food products must list their ingredients, clothing must be labelled with information about its proper care, and banks must tell you exactly how much interest you are paying on a loan.
3. *The right to be heard.* Procter & Gamble puts a toll-free number on many of its products that consumers can call if they have questions

or complaints. Many other retailers offer money-back guarantees if consumers are not happy with their purchase.

4. *The right to choose what they buy.* Central to this right is free and open competition among companies. In times past, companies divided up a market so that firms did not have to truly compete against each other. Such practices are illegal today and any attempts by business to block competition can result in fines or other penalties.
5. *The right to be educated about purchases.* All prescription drugs now come with detailed information regarding dosage, possible side effects, and potential interactions with other medications.
6. *The right to courteous service.* This right is hard to legislate, but as consumers become increasingly knowledgeable, they are more willing to complain about bad service. Consumer hotlines can also be used to voice service-related issues.

**Unfair Pricing** Interfering with competition can also mean illegal pricing practices. *Collusion* among companies—including getting together to “fix” prices—is against the law. Arctic Glacier Inc. of Winnipeg was one of several companies served with subpoenas by the U.S. government during an investigation of collusion in the U.S. market for packaged ice. Arctic eventually paid \$12.5 million in fines.<sup>28</sup> The Canadian Competition Bureau launched an investigation after hearing allegations from a confidential informant that Mars, Hershey, Nestlé, and Cadbury had teamed up in a price-fixing scheme.<sup>29</sup> In 2012, three gas companies in Kingston and Brockville—Canadian Tire, Pioneer Energy, and Mr. Gas Ltd.—were fined a total of \$2 million by the Competition Bureau for fixing gas prices.<sup>30</sup> Other countries are also concerned about price fixing. In Germany, the competition watchdog recently fined companies in three different industries—meat, sugar, and beer—for conspiring to fix prices. The fines totalled more than \$700 million.<sup>31</sup>

In 2010, new laws came into effect that were designed to make it easier for the Competition Bureau to convict price-fixers (since 1980, only three price-fixing convictions were secured in the 23 cases that came before the Bureau). The maximum prison sentence for price fixing has been tripled to 14 years, and the maximum fine increased from \$10 million to \$25 million.<sup>32</sup>

**Ethics in Advertising** There are several ethical issues in advertising, including truth-in-advertising claims, the advertising of counterfeit brands, the use of stealth advertising, and advertising that is morally objectionable.

*Truth in advertising* has long been regulated in Canada, but an increased emphasis on this issue is now becoming more noticeable on the international scene as well. For example, Chinese government officials investigated Procter & Gamble’s claim that its Pantene shampoo made hair “10 times stronger.” This came shortly after Procter & Gamble was ordered to pay a \$24 000 fine after one consumer complained that SK-II skin cream was not the “miracle water” it claimed to be and did not make her skin “look 12 years younger in 28 days.”<sup>33</sup>

*Advertising of counterfeit brands* is a problem in many different product lines, including perfume, luggage, pharmaceuticals, designer clothing, shoes, cigarettes, watches, sports memorabilia, golf clubs, and fine wines, to name just a few. Because cancer drugs are so expensive, fake versions have started to appear in various countries.<sup>34</sup> In 2011, fake jerseys of the reborn Winnipeg Jets hockey team were seized by the RCMP.<sup>35</sup> In

| THERE'S AN APP FOR THAT!                                                                                                                                                                                                                                        |                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| APP DETAILS                                                                                                                                                                                                                                                     | PLATFORMS      |
| <b>1. Ethical Barcode</b><br><b>Source:</b> David Hamp-Gonsalves<br><b>Key Features:</b> Exposes the environmental, social, and ethical ramifications of the products you buy.                                                                                  | Apple, Android |
| <b>2. The Eco Activist</b><br><b>Source:</b> Bright Beam<br><b>Key Features:</b> Built-in carbon footprint calculator; you can get a fast estimate, or a deeper, more accurate calculation of your carbon footprint, as well as your family/household’s result. | Android        |
| <b>3. iRecycle</b><br><b>Source:</b> Earth 911 Inc.<br><b>Key Features:</b> iRecycle provides access to more than 1 600 000 ways to recycle over 350 materials.                                                                                                 | Apple, Android |

### APP DISCOVERY EXERCISE

Since app availability changes, conduct your own search for the “Top Three” socially responsible and green business apps and identify the key features.

**CONSUMERISM** A social movement that seeks to protect and expand the rights of consumers in their dealings with businesses.



Counterfeit goods being sold on a street in Rome, Italy.

AHMAD FAIZAL YAHYA/Shutterstock

2014, Lululemon filed a lawsuit against several China-based companies, alleging that they were selling fake versions of its popular yoga pants online.<sup>36</sup> In 2015, the government of China charged that Alibaba, the e-commerce giant, was not doing enough to prohibit the sale of fake goods on its websites.<sup>37</sup>

Counterfeiting has moved beyond the manufacturing of individual products. In China and in New York City, fake Apple stores have popped up, complete with sales assistants wearing blue T-shirts with the Apple logo and signs advertising the latest Apple products.<sup>38</sup> In the Chinese city of Kunming, an Ikea knockoff store called 11 Furniture duplicates Ikea's

well-known blue-and-yellow look and has essentially pirated the entire Ikea brand experience.<sup>39</sup>

The International Chamber of Commerce estimated the value of global trade in counterfeit goods at \$1.7 trillion dollars in 2014.<sup>40</sup> Counterfeiting is obviously harmful to the companies that have spent a lot of time and money developing brand name goods for sale. While it might seem consumers benefit because they get low prices for goods that look like the real thing, in fact consumers often pay far too much for counterfeit goods because they are of very low quality. As well, some are downright dangerous to use. While a fake handbag simply costs money, fake pharmaceuticals, electrical products, and motorcycles can kill people who use them.<sup>41</sup> Nearly one-third of the counterfeit goods seized in Canada in one recent year were deemed by the RCMP to be harmful to the user.<sup>42</sup>

*Stealth (undercover) advertising*, a variation of viral marketing (see Chapter 2), involves companies paying individuals to extol the virtues of their products to other individuals who are not aware that they are listening to a paid spokesperson for the company. For example, Student Workforce hires individuals who are 18 to 30 years old to market products to other people in the same age bracket.<sup>43</sup> One advertising agency hired models to pose as tourists. These models asked real tourists to take their picture with a new Sony Ericsson camera cell phone. The models then talked up the advantages of the new product to the unsuspecting real tourists. The ethics of this are questionable when the paid individuals do not reveal that they are being paid by a company, so the recipient of the advertising is not aware that it is advertising. Commercial Alert, a U.S.-based consumer protection group, wants a government investigation of these undercover marketing tactics.<sup>44</sup>

*Morally objectionable advertising* offends the average person's sense of what is reasonable. Advertisements that have been criticized include Victoria's Secret models in skimpy underwear, campaigns by tobacco and alcohol companies that target young people, and the way women are portrayed in some video games (some new products are coming on the market to rectify this latter situation; see the boxed insert entitled "Silicon Sisters").



<<< Of all roadway accidents, 25 percent are distraction-related, and the biggest distractions for motorists are handheld gadgets: smartphones, pagers, and the like. In fulfilling their responsibility to consumers, some companies are conducting tests that yield important data about roadway accidents. Ford Motor Co., for example, has a Virtual Test Track Experiment simulator that determines how often drivers get distracted. Under normal circumstances, an adult driver will miss about 3 percent of the simulated "events" (like an ice patch or a deer on the road) that show up in the virtual road trip. If they're on the cell phone, they miss about 14 percent. But teenagers miss a scary 54 percent of the events.

Elena Elisseeva/Shutterstock

## RESPONSIBILITY TOWARD EMPLOYEES

In Chapter 8, we describe the human resource management activities essential to a smoothly functioning business. These same activities—recruiting, hiring, training, promoting, and compensating—are also the basis for socially responsible behaviour toward employees. Socially responsible companies hire and promote new workers without regard to race, sex, or other irrelevant factors, provide a safe and non-bullying workplace, do not tolerate abusive managers or managers who sexually harasses subordinates, promote a work–life balance among employees, emphasize employee mental health, and pay a living wage.

Progressive companies go well beyond legal requirements, hiring and training the so-called hardcore unemployed (people with little education and training and a history of unemployment) and those who have disabilities. Bank of Montreal, for example, sponsors a community college skills upgrading course for individuals with hearing impairments. Royal

Bank provides managers with discrimination awareness training. Rogers Communications provides individuals with mobility restrictions with telephone and customer-service job opportunities.<sup>45</sup>

Businesses also have a responsibility to respect the privacy of their employees, though there is some controversy about exactly how much control companies should have in areas like drug testing and computer monitoring. When Canadian National Railway instituted drug testing for train, brake, and yard employees, 12 percent failed. Trucking companies have found that nearly one-third of truckers who had an accident were on drugs.<sup>46</sup> It seems likely that safety will be compromised when employees in transportation companies use drugs, but there is controversy about what kind of testing is appropriate.

Differences of opinion are also evident with regard to the computer monitoring of employees while they are at work. New software programs allow bosses to see things like employees' Facebook comments and their opinions about pubs on Foursquare. Social Sentry, a tracking system developed by Social Logix, records employee social media activity

## ENTREPRENEURSHIP AND NEW VENTURES

### Creating Games with a Social Twist

Video games—which often portray young women in a negative light—have been largely created by young men with the young male consumer in mind. More often than not, these games play to low-level, base emotions. According to the Entertainment Software Association of Canada, approximately 59 percent of Canadians play video games and about 39 percent of those people are women. Meeting the specific needs of female gamers is a huge market opportunity that has so far been largely ignored. Silicon Sisters Interactive was created by two women to address this opportunity and to change the face of gaming.

Think of it as gaming with a social consciousness: gaming by women, for the female market, with images girls can aspire to, and women can relate to. So put away the guns and explosives—let's talk about a new model for a largely ignored market segment.

The two women behind Silicon Sisters Interactive have first-hand knowledge and experience in all aspects of the gaming industry. Brenda Bailey Gershkovitch, the CEO, focuses on the business side. She earned her stripes as the former COO of Deep Fried Entertainment while working on games like *MLB Superstars*, *Shadow Play*, and *Fantasy All Stars*. She is also on the board of directors of the Game Developers



Conference of Canada. Kristen Forbes, the COO, is responsible for production. Kristen gained experience as an Executive Producer at Radical Entertainment where she worked on games like *Crash of the Titans*, *Scarface*, *The Incredible Hulk*, and *The Simpsons: Hit & Run*.

The shift from gaming consoles to new social gaming platforms (e.g., Facebook) has created an opportunity to connect and create scenarios for collaboration and group interaction. The gaming world is no longer stuck in a dark basement. The success of games like *FarmVille* (especially among older women) and social forums like Club Penguin (designed for kids up to 12 years old) have led the way. With this in mind, the women behind Silicon Sisters have created games like *School 26* and *Everlove*.

*School 26* is a unique, casual game designed for girls aged 12 to 16. It follows Kate, a student whose family moves often, making it hard for her to maintain friendships. As she enrolls in her 26th new school, she

makes a deal with her parents: if she makes good friends here, the family will stay put. Now the player has to help Kate use intuition, empathy, and strategy to build friendships and navigate the moral dilemmas (peer pressure, romance, and so on) of high school.

*Everlove* is a social gaming product aimed at women aged 35 to 50, a blend of romance novels and gaming served on a smartphone or tablet.

Will Silicon Sisters Interactive become the next big gaming company? Perhaps, and it is already changing the face of gaming by thinking about the needs of a large market segment that has been largely ignored. That is a really good start.

Recently, at a gaming industry event, the Silicon Sisters approach received support not simply because of its social message but also because of its business potential. George Lucas, the famous director of the movie *Star Wars*, said he thinks the “big game of the next five years will be a game . . . aimed at women and girls.” For Brenda and Kristen these comments are music to their ears, and they fully intend to be at the front of the line to change the landscape and be a legitimate voice for female gamers.

### CRITICAL THINKING QUESTIONS

1. What do you think of the potential for gaming products aimed at female consumers?
2. What themes or topics would you recommend for this underserved market?



^ The safety of workers is an important consideration for all organizations. The required use of protective clothing when dealing with toxic substances is just one example of precautions that companies can take to protect workers while they are on the job.

Ahn Young-joon/The Canadian Press

from work or home. The program looks for workers who leak sensitive company information or badmouth the company.<sup>47</sup> Workers shouldn't damage the reputation of the company they work for, but there is no consensus on what constitutes going "too far."

**Whistle-Blowers** Respecting employees as people also means respecting their behaviour as ethically responsible individuals. Employees who discover that their company has been engaging in practices that are illegal, unethical, and/or socially irresponsible should be able to report the problem to higher-level management and be confident that managers will stop the questionable practices. If no one in the organization will take action, the employee might decide to inform a regulatory agency or the media. At this point, the person becomes a **whistle-blower**—an employee who discovers and tries to put an end to a company's unethical, illegal, and/or socially irresponsible actions by publicizing them.

John Kopchinski, a sales representative at pharmaceutical giant Pfizer, blew the whistle after he learned that Pfizer was promoting certain drugs for unapproved uses. He received \$5.1 million from the U.S. government for his efforts.<sup>48</sup> In Canada, WestJet employee Melvin Crothers discovered that a fellow WestJet employee was somehow accessing a restricted Air Canada website in order to obtain data about Air Canada's "load factor" (the proportion of seats filled) on certain flights. It turned out that the employee had formerly worked for Air Canada, but his access to confidential Air Canada data had inadvertently not been cancelled. After discovering this, Crothers had a conversation with a former WestJet president who was heading up an Air Canada discount airline, which led

**WHISTLE-BLOWER** An individual who calls attention to an unethical, illegal, and/or socially irresponsible practice on the part of a business or other organization.

## MANAGING IN TURBULENT TIMES

### Should We Pay Whistle-Blowers?

When Eric Ben-Artzi, a risk analyst for Deutsche Bank, came to the conclusion that his company was overvaluing billions of dollars of derivatives, he discussed his concerns with his bosses. When they didn't pay attention, he filed a whistle-blower complaint with the U.S. Securities and Exchange Commission (SEC). Eric was let go a few months later, and has now filed a wrongful dismissal lawsuit against Deutsche. If Eric's claims are shown to be correct, he could receive millions of dollars in compensation. When the SEC levies a fine of \$1 million or more, a whistle-blower who provided helpful information in the case can receive between 10 and 30 percent of the fine. One whistle-blower received \$30 million.

In Canada, whistle-blower programs like the one established by the Investment Industry Regulatory Organization of Canada (IIROC) do not pay whistle-blowers for reporting illegal acts. Rather, attention in Canada has focused

on protecting whistle-blowers from retaliation by the companies they reported. In 2013, the SEC received 62 tips from Canadian whistle-blowers (out of a total of 3238 tips).

In 2015, the Ontario Securities Commission proposed an incentive-based system for paying whistle-blowers which would cap payments at \$1.5 million. Here is a key question that is part of their deliberations: Are there unanticipated negative consequences that might arise as from such payment? There are two opposing views on this question (naturally!).

Supporters say it is a good idea because whistle-blowers face a great deal of hostility and harassment from their companies when they report managerial misconduct. Companies also try to publicly discredit the whistle-blower, and this likely reduces the person's future job prospects. Because "speaking truth to power" is risky, whistle-blowers should be compensated. It's also true that the government can recover large sums of money from companies that behave badly if whistle-blowers come forward.

Opponents argue that if whistleblowers are paid, they will have an incentive to bypass existing compliance programs and go straight for the money. They also argue that whistleblowers may make questionable charges as they put their own financial interests ahead of the interests of the company they work for. There may also be a "rush to judgment" about a situation. For example, at French car-maker Renault, three high-ranking executives were fired after an anonymous tip that they had stashed bribe money in a Swiss bank. The three executives were eventually exonerated, but they were subjected to considerable stress and the company experienced a public humiliation.

### CRITICAL THINKING QUESTIONS

1. In your own words, state the pros and cons of paying whistle-blowers for the information they provide.
2. On balance, do you think it is a good idea to pay whistle-blowers? Explain your reasoning.

to Air Canada filing a lawsuit against WestJet. Crothers resigned from WestJet four days later.<sup>49</sup>

Whistle-blowers are often demoted or fired when they take their accusations public. Even if they retain their jobs, they may still be treated as outsiders and suffer resentment or hostility from co-workers. One recent study found that about half of all whistle-blowers eventually get fired, and about half of those who get fired subsequently lose their homes and/or families.<sup>50</sup>

Federal legislation to protect whistle-blowers was introduced in Canada in 2003. In 2009, the Investment Industry Regulatory Organization of Canada (IIROC) opened a whistle-blower hotline as a result of an increased incidence of securities fraud such as Ponzi schemes in both Canada and the United States. Calls regarding market fraud are forwarded to four of the top people at the IIROC so that swift action can be taken.<sup>51</sup> The boxed insert entitled "Should We Pay Whistle-Blowers?" analyzes an interesting issue in whistle-blowing.

## RESPONSIBILITY TOWARD INVESTORS

It might sound odd to say that managers can be irresponsible toward investors, since the investors are the owners of the company, but managers behave irresponsibly when they pay themselves outlandish salaries and bonuses or spend large amounts of company money for their own personal comfort. If managers do not use the firm's financial resources in a responsible way, the ultimate losers are the owners, since they do not receive the earnings, dividends, or capital appreciation due to them. Financial mismanagement can take many forms, including *improper financial management*, *misrepresentation of finances*, *cheque kiting*, and *insider trading*.

**Improper Financial Management** This can take many forms, including executives making bad financial decisions, paying executives outlandish salaries and bonuses, or sending them on extravagant "retreats" to exotic resorts. For example, managers at American International Group became involved in very-high-risk insurance that caused the company to be on the hook for billions of dollars. The U.S. government ended up giving hundreds of billions of dollars to the company to keep it afloat. In many of these situations, creditors don't have much leverage and shareholders have few viable options. Trying to force a management changeover is not only difficult, but it can also drive down the price of the company's stock, a penalty shareholders are usually unwilling to assign themselves.

**Misrepresentation of Finances** Occasionally, managers are guilty of misrepresenting a company's financial condition. In Canada, one of the most highly publicized cases involved Garth Drabinsky and Myron Gottlieb, the top managers at Livent Inc. In 2006, Ken Lay, the CEO of Enron, was convicted of conspiracy and securities fraud, but he died before he was sentenced. In 2007, Conrad Black, CEO of Hollinger International, was convicted of fraud and obstruction of justice and was sentenced to six and a half years in prison. In December 2008, Bernie Madoff pleaded guilty to swindling investors in a \$50 billion fraud. He is likely to spend the rest of his life in prison.<sup>52</sup> In 2012, R. Allen Stanford was found guilty of wasting investor money on yachts, failing businesses, and cricket tournaments. He was sentenced to 110 years.<sup>53</sup>

**Cheque Kiting** This involves writing a cheque from one account, depositing it in a second account, and then immediately spending money from the second account while the money from the first account is still in

transit. A cheque from the second account can also be used to replenish the money in the first account, and the process starts all over again. This practice obviously benefits the person doing the kiting, but it is irresponsible because it involves using other people's money without paying for it. In 2012, the Bank of Montreal sued several U.S. and Canadian businesspeople, alleging that they ran a cheque kiting scheme that cost BMO \$20 million.<sup>54</sup>

**Insider Trading** Using confidential information to gain from the purchase or sale of stock is called **insider trading**. The trader uses information not available to the general investor by either buying stock just before its price goes up or selling stock just before its stock goes down. The Alberta securities regulator charged several executives at Grand Cache Coal Corp. with insider trading for selling company stock before the company disclosed negative news about its sales.<sup>55</sup> Raj Rajaratnam, the co-founder of Galleon Group, was sentenced to 11 years in prison for insider trading,<sup>56</sup> and Matthew Martoma, who worked for an affiliate of SAC Capital Advisors, was sentenced to 9 years.<sup>57</sup> One study showed that there was "abnormal" trading in 25 percent of takeover deals between 1996 and 2012.<sup>58</sup> Critics say that the government is not doing nearly enough to stop insider trading, but the offence can be hard to prove because evidence is often circumstantial.<sup>59</sup>

## RESPONSIBILITY TOWARD SUPPLIERS

Businesses that are socially responsible take care when managing their relationships with their suppliers, because they recognize the importance of mutually beneficial partnership arrangements. Thus, they keep suppliers informed about the company's plans, and they negotiate delivery schedules and prices that are acceptable to both firms. Some firms go so far as to allow suppliers access to the firm's internal records so the supplier can better serve the firm. Toyota and Amazon.com are among the companies acknowledged to have excellent relationships with their suppliers.

In contrast, some large retailers put intense pressure on their suppliers to lower their prices. If the supplier cannot get the price down to the level the retailer demands, the retailer drops the supplier and finds another one that will meet the price. The retailer does this so it will be able to charge low prices to consumers and thereby improve its market share. Consumers like the low prices, but suppliers may have difficulty surviving because they cannot cover their costs.

## RESPONSIBILITY TOWARD LOCAL AND INTERNATIONAL COMMUNITIES

Businesses can demonstrate socially responsible behaviour in their local communities by contributing to local programs like community hockey, by donating to charities such as the United Way, and by many other actions that support an improved quality of life for people who live in the local community where the business operates.

**Corporate Charitable Donations** Many companies donate money and time to different causes. For example, in 2014 the "Celebration of Giving" program at Telus generated \$46 million of donations to charities, and Telus employees donated 15 000 hours of volunteer work.<sup>60</sup> At AltaGas, employees can take two paid days off per year to

**INSIDER TRADING** The use of confidential information to gain from the purchase or sale of stock.

volunteer at a charity of their choice.<sup>61</sup> Every four months, Whole Foods (Toronto) donates 5 percent of one day's sales to a designated non-profit organization.<sup>62</sup> Unilever Canada gives employees four afternoons a year for community activities.<sup>63</sup> Mars Canada sets aside one day each year for employees to volunteer. In 2013, Tim Hortons' Children's Foundation started construction on a camp for underprivileged children at Sylvia Lake in Manitoba. The Foundation also has a Youth Leadership Program that is currently offered at two sites in Ontario.<sup>64</sup> A survey of 93 large Canadian companies found that 97 percent made a charitable contribution of some sort and that the median value of their contributions was \$340 000.<sup>65</sup> More than 80 percent of the companies said that they made contributions because it was a good thing to do, irrespective of any financial benefits they might achieve from giving.<sup>66</sup>

The stakeholder model can also provide some helpful insights into the conduct of managers in international business. In particular, organizations should acknowledge their commitment to their stakeholders in each country where it does business. Daimler, for example, has investors not only in Germany, but also in Canada, the United States, Japan, and various other countries. It also has suppliers, employees, and customers in multiple countries, so its actions affect communities in many different countries. International businesses must also address their responsibilities in areas such as wages, working conditions, and environmental protection across different countries (that have varying laws and norms). ExxonMobil, for example, has helped build hospitals and expand schools in Angola, and it also supports a local anti-malaria program.

## RESPONSIBILITY TOWARD THE ENVIRONMENT

Controlling **pollution**—the injection of harmful substances into the environment—is a significant social responsibility challenge for business firms. Air, water, and land pollution are the focus of most anti-pollution efforts by business and governments.

**Air Pollution** *Air pollution* results when a combination of factors lowers air quality. Large amounts of chemicals such as the carbon monoxide emitted by automobiles contribute to air pollution. So do smoke and other chemicals emitted by manufacturing plants. The rapid industrialization of developing countries has led to increased concerns



^ High pollution levels in the city centre of Shanghai, China. Air pollution is a major problem in some large cities in China because power plants and factories have not installed proper pollution controls.

oceanfishing/Shutterstock

about air pollution. In China, for example, 100 coal-fired power plants are being built every year, and each plant uses 1.2 million tonnes of coal and throws off 3.7 million tons of carbon dioxide. Only 5 percent of the coal-fired power plants in China are equipped with pollution-control equipment.<sup>67</sup> Many industrial companies were forcibly shut down by the Chinese government in advance of the 2008 Olympics in an attempt to improve air quality.

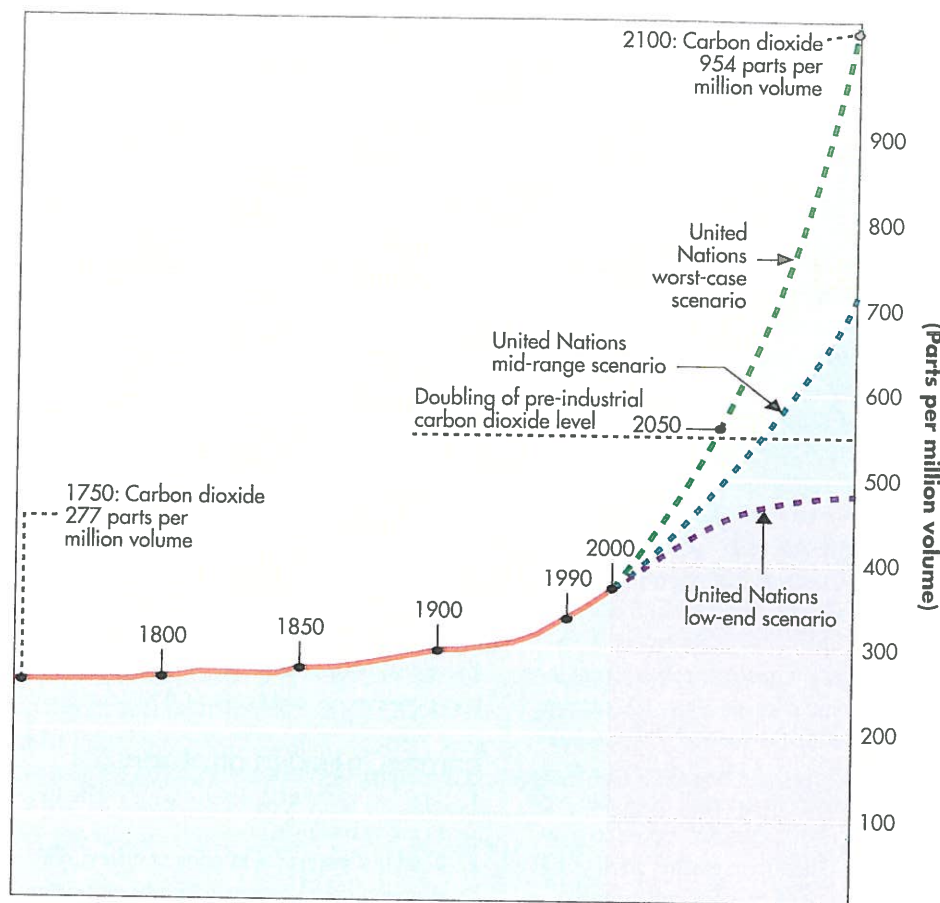
The Kyoto Summit in 1997 was an early attempt by various governments to reach an agreement on ways to reduce the threat of pollution. Australia is the world's largest greenhouse gas emitter per capita, contributing 7.3 percent of the world's total. The United States (at 6.5 percent) and Canada (at 6.4 percent) are close behind. Canada is the only one of the three leading emitters that signed the 1997 Protocol, but in 2006 the Conservative government said Canada would not be able to meet its targets for reducing pollution, and that it would continue with the Protocol only if the targets were renegotiated.<sup>68</sup> The 2009 meetings in Copenhagen on this issue ended without an agreement.

The United Nations has promoted a "cap and trade" system, in which companies in industrialized countries can buy carbon credits, which essentially give them the right to pollute the atmosphere with carbon dioxide. The money collected is then used to help fund clean-air projects in developing countries that would not otherwise be affordable.<sup>69</sup> In 2013, the province of Quebec and the state of California introduced compulsory cap-and-trade rules in an attempt to reduce greenhouse gas emissions. Quebec has set a goal to reduce emissions to 25 percent below 1990 levels.<sup>70</sup> But critics of cap and trade say that the scheme is an open invitation to fraudsters. Suppose, for example, that an Indonesian forest operator sells a carbon permit to a German manufacturing firm that is releasing too much CO<sub>2</sub> into the atmosphere. That one transaction is fine, but what if the Indonesian firm sells the same carbon permit to manufacturers in other countries? That will make it appear like a lot more carbon dioxide has been reduced than is actually the case. Multibillion-dollar fraud has already occurred in the European Union's carbon trading market, and Europol's Criminal Finances and Technology section estimates that up to 90 percent of all carbon market volume in certain EU nations is fraudulent.<sup>71</sup>

Figure 3.4 shows world atmospheric carbon dioxide levels for the period between 1750 and 2000, and it offers three possible scenarios for future levels under different sets of conditions. Energy supplies are measured in exajoules—one of which is roughly the annual energy consumption of a large metropolitan area like New York or London. Under the lowest, or best-case, scenario, by 2100 the population would only grow to 6.4 billion people, economic growth would be no more than 1.2 to 2 percent a year, and energy supplies would require only 8000 exajoules of conventional oil. However, under the highest, or worst-case, scenario, the population would increase to 11.3 billion people, annual economic growth would be between 3 and 3.5 percent, and energy supplies would require as much as 18 400 exajoules of conventional oil.

Concerns about the negative effect of air pollution has led to an increasing emphasis on the development of clean, renewable energy such as wind, solar, and hydroelectric power as a way to reduce the pollution caused by burning fossil fuels. In terms of capacity, Canada ranks in the top five countries in the world for hydroelectric power generation. In terms of total investment in renewable energy, Canada ranks sixth.<sup>72</sup>

**POLLUTION** The introduction of harmful substances into the environment.



**FIGURE 3.4** CO<sub>2</sub> emissions, past and future

There is currently an intense debate about whether *global warming*—an increase in the earth's average temperature—is occurring because of increased air pollution. Supporters and skeptics alike provide evidence to prove their point. If global warming occurs, it will benefit some people and hurt others. In normally icy Greenland, for example, a warming climate will result in a longer growing season for grain and vegetables, and farmers may start raising cattle because of the increased forage that would be available in the summertime. But warming would also melt some of the world's glaciers and cause sea levels to rise and flood some coastal cities.<sup>73</sup>

In difficult economic times, the general public is less willing to make personal sacrifices in order to battle climate change. A poll of 12 000 people in 11 countries showed that less than half of the respondents were willing to make lifestyle changes to reduce carbon emissions, and only 20 percent said they would be willing to spend extra money to fight climate change.<sup>74</sup>

**Water Pollution** For many years, businesses and municipalities dumped their waste into rivers, streams, and lakes with little regard for the effects. Thanks to new, stricter legislation and increased awareness on the part of businesses, water quality is improving in many areas. But water pollution is still a concern, and several high-profile oil spills—like the BP disaster in the Gulf of Mexico in 2010—have occurred. Pollution of the oceans by both cargo and passenger ships is a continuing problem.

**Land Pollution** Toxic wastes are dangerous chemical and/or radioactive by-products of various manufacturing processes that are

harmful to humans and animals. In 2010, oil-sands giant Syncrude was found guilty of causing the death of 1600 ducks that landed in a tailing pond they had mistaken for a small lake. The company faced fines of up to \$800 000 under the federal Migratory Birds Act and the Alberta Environmental Protection and Enhancement Act.<sup>75</sup>

Changes in forestry practices, limits on certain types of mining, and new forms of solid waste disposal are all attempts to address the issue of toxic waste. An entire industry—**recycling**—has developed as part of increased consciousness about land pollution. For example, MET Fine Printers in Vancouver, which used to spend \$3000 each month on waste disposal, reduced that cost to just \$300 after introducing a recycling program.<sup>76</sup> Vancouver-based Plastic Bank recycles plastic to produce “Social Plastic” products, and in the process provides employment to marginalized workers in Latin America and the Caribbean.<sup>77</sup> Plant and animal waste can be recycled to produce energy; this is referred to as *biomass*. Waste materials like sawdust, manure, and sludge are increasingly being turned into useful products. Ensyn Corp., for example, converts sawdust into liquid fuel by blasting wood waste with a sand-like substance that is heated. What's left is bio-oil.<sup>78</sup>

Canadian businesses are now routinely reducing various forms of pollution. However, the road to environmental purity is not easy. Under the Canadian and Ontario Environmental Protection Acts, pollution liability for a business firm can run as high as \$2 million per day. To avoid such fines, companies must prove that they showed diligence in avoiding an environmental disaster such as an oil or gasoline spill.<sup>79</sup> The Environmental Choice program, sponsored by the federal government, licenses products that meet environmental standards set by the Canadian Standards Association. Firms whose products meet these standards can put the logo—three doves intertwined to form a maple leaf—on their products.<sup>80</sup>

An interesting problem that highlights some of the complexities in both waste disposal and recycling involves wooden pallets—those splintery wooden platforms used to store and transport consumer goods. Pallets are very recyclable, but since the cost of new ones is so low, many companies just toss used ones aside and buy new ones. Ironically, some environmentalists argue that abandoned pallets actually serve a useful purpose because in urban areas, they often become refuge for animals such as raccoons and abandoned pets.<sup>81</sup>

Canadian firms that do business abroad are increasingly being confronted with environmental issues. In many cases, there is opposition to a project by local residents because they fear that some sort of pollution will result. For example, Calgary-based TVI Pacific Inc.'s planned open-pit mine and cyanide processing plant in the Philippines led to violent clashes between the company and the Subanon people. In Peru, indigenous groups threatened violence if Talisman Energy continued drilling for oil on their land.<sup>82</sup> Multinational firms have also been publicly criticized. For example, Nestlé has received negative publicity on YouTube,

**RECYCLING** The reconversion of waste materials into useful products.

# THE GREENING OF BUSINESS

## Some Frustrations in the Green Movement

Consumers interested in buying products that are environmentally friendly face two key problems. The first is that companies often make misleading claims about the green characteristics of their products. A study of 5296 products by TerraChoice, an environmental marketing company, found that there was at least one misleading green claim on 95.6 percent of the products they studied. The study also found that 100 percent of toy manufacturers and 99.2 percent of baby-product makers were guilty of "greenwashing" (misleading consumers about the environmental benefits of a product). Having a product certified by a recognized, independent third party reduced the incidence of greenwashing, but fake certifications are readily available on the internet. TerraChoice identified several green "sins," including (1) making an environmentally friendly claim but providing no proof, (2) making vague claims (e.g., saying that a product is "all natural"), (3) making a green claim for a product that is inherently

harmful (e.g., cigarettes), and (4) emphasizing a product's positive attributes on a relatively unimportant environmental issue and downplaying a product's negative characteristics on a far more important environmental issue. However, progress is being made; more and more products have accurate green claims.

The second problem facing consumers is that green products can be very expensive. Governments subsidize the development of electric and hybrid automobiles, but cars like Chevy's hybrid rechargeable Volt (named Car of the Year by *Motor Trend*), Nissan's all-electric Leaf, and Ford's all-electric Focus are expensive enough that many people cannot afford them. A hybrid car like the Prius, for example, costs about 30 percent more than an equivalent gasoline-powered car, and battery-powered cars are 50 to 100 percent higher. Even with fuel savings, it would take more than ten years for your purchase of an electric or hybrid car to break even with a car like the Ford Fiesta. Gasoline-powered automobiles also outperform electric and hybrid cars on dimensions that are important to consumers (cost, driving range, and power).

Consulting firm J.D. Power produced a report entitled "Drive Green 2020: More Hope Than Reality" which noted that hybrid or battery vehicles constituted only 2.2 percent of global vehicle sales in 2010, and that even with healthy growth during the next few years, they will represent just over 7 percent of all vehicles sold by 2020. It's also not clear that electric-powered cars will actually mean less air pollution, because providing the electricity to recharge all those electric cars will increase demand on electrical generating plants, and they typically burn fossil fuels to generate electricity. More troubling is a comprehensive life cycle analysis that showed that the manufacturing process for an electric car produces 30 000 pounds of carbon dioxide emissions (the same process for an internal combustion-powered car produces 14 000 pounds).

### CRITICAL THINKING QUESTIONS

1. Why are misleading green claims made for so many products?
2. What are the pros and cons of having government actively involved in subsidizing the development of green products?

Facebook, and Twitter claiming that the company is contributing to destruction of Indonesia's rainforest because it purchases palm oil from an Indonesian company that has cleared the rainforest to make way for a palm oil plantation.<sup>83</sup>

The boxed insert entitled "Some Frustrations in the Green Movement" describes some difficulties that are evident as companies and consumers try to behave in a more environmentally friendly way.

## IMPLEMENTING SOCIAL RESPONSIBILITY PROGRAMS

Thus far, we have discussed corporate social responsibility (CSR) as if there is agreement on how companies should behave in most situations. In fact, differences of opinion exist as to the appropriateness of CSR as a business goal. Some people oppose any business activity that cuts into investor profits, while others argue that CSR must take precedence over profits.

Even people who share a common attitude toward CSR by business may have different reasons for their beliefs, and this influences their view about how social responsibility should be implemented. Some people fear that if businesses become too active in social concerns, they will gain too much control over how those concerns are addressed. They point to the influence many businesses have been able to exert on the government agencies that are supposed to regulate their industries. Other critics of business-sponsored social programs argue that companies lack the expertise needed. They believe that technical experts, not businesses, should decide how best to clean up a polluted river, for example.

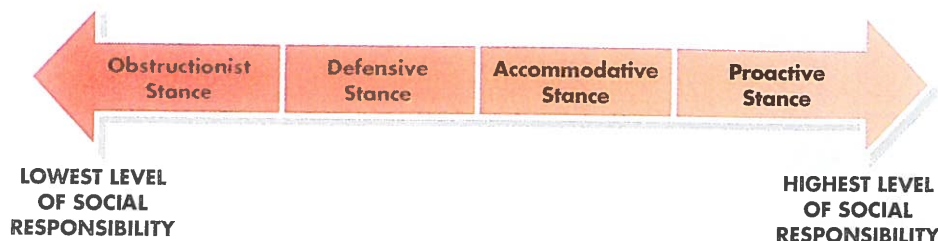
Supporters of CSR believe that corporations are citizens just like individuals and therefore should help improve our lives. Others point

to the vast resources controlled by businesses and note that, since businesses often create many of the problems social programs are designed to alleviate, they should use their resources to help. Still others argue that CSR is wise because it pays off for the firm in terms of good public relations.

The late Max Clarkson, formerly a top-level business executive and director of the Centre for Corporate Social Performance and Ethics at the University of Toronto, designed and applied a CSR rating system for companies. He found that companies that had the highest marks on ethics and CSR also had the highest financial performance.<sup>84</sup>

## LO-4 Approaches to Social Responsibility

Given these differences of opinion, it is little wonder that corporations have adopted a variety of approaches to social responsibility. As Figure 3.5 illustrates, the four stances an organization can take concerning its obligations to society fall along a continuum ranging from the lowest



<<< **FIGURE 3.5** Spectrum of approaches to social responsibility

to the highest degree of socially responsible practices. Keep in mind that organizations do not always fit neatly into one category or another. The Ronald McDonald House program has been widely applauded, for example, but McDonald's has also come under fire for allegedly misleading consumers about the nutritional value of its food products. The Exercising Your Ethics exercise at the end of this chapter gives you an opportunity to think about the pros and cons of the various stances toward CSR.

## OBSTRUCTIONIST STANCE

Businesses that take an *obstructionist stance* to social responsibility do as little as possible to solve social or environmental problems. When they cross the ethical or legal line that separates acceptable from unacceptable practices, their typical response is to deny or cover up their actions. Firms that adopt this position have little regard for ethical conduct and will generally go to great lengths to hide wrongdoing.

## DEFENSIVE STANCE

An organization adopting a *defensive stance* will do everything required of it legally, but nothing more. Such a firm, for example, would install pollution-control equipment dictated by law, but would not install higher-quality equipment even though it might further limit pollution. Managers who take a defensive stance insist that their job is to generate profits. Tobacco companies in Canada and the United States generally take this position in their marketing efforts, since they are legally required to include warnings to smokers on their products and to limit advertising to prescribed media. They follow these rules to the letter of the law, but use more aggressive marketing methods in countries that have no such rules.

## ACCOMMODATIVE STANCE

A firm that adopts an *accommodative stance* meets its legal and ethical requirements, but will also go further in certain cases. Such firms may agree to participate in social programs, but solicitors must convince them that these programs are worthy of funding. Many organizations respond to requests for donations to community hockey teams, Girl Guides, youth soccer programs, and so forth. The point, however, is that someone has to knock on the door and ask; accommodative organizations do not necessarily or proactively seek avenues for contributing.

## PROACTIVE STANCE

Firms that adopt a *proactive stance* take to heart the arguments in favour of CSR. They view themselves as good citizens of society and they proactively seek opportunities to contribute. The most common—and direct—way to implement this stance is by setting up a foundation to provide direct financial support for various social programs.

## Managing Social Responsibility Programs

The management of social responsibility programs can be done at both the formal and informal level.

### FORMAL ACTIVITIES

At the *formal level*, top management must state strong support for CSR and make it a factor in strategic planning. Without the support of top management, no program can succeed. A specific executive must be given the authority to act as the director of the firm's social agenda. This individual monitors the program and ensures that its implementation is consistent with the policy statement and the strategic plan. Some companies appoint a committee of top managers to develop plans that detail the level of support that will be provided for the firm's social responsibility initiatives. For example, the company may decide to set aside a percentage of profits for social programs. Levi Strauss has a policy of giving 2.4 percent of its pre-tax earnings to worthy causes.

All of the organization's formal activities are summarized in a **social audit**, which is a systematic analysis of how a firm is using funds earmarked for its social-responsibility goals, and how effective these expenditures have been.<sup>85</sup> An important related element in a social responsibility program is the idea of **sustainable development**, which means pursuing activities that meet current needs, but which will not put future generations at a disadvantage when they attempt to meet their needs. Canadian businesses publish sustainability reports that explain how the company is performing on issues such as the environment, employee relations, workplace diversity, and business ethics. A study by Ottawa-based Stratos Inc. found that 60 percent of the 100 largest Canadian companies report at least some sustainability performance information.<sup>86</sup> For example, Artopex Inc., a furniture manufacturer in Quebec, has an active sustainability program.<sup>87</sup> Baxter Corp., a medical products company, publishes an annual Global Sustainability Report measuring the company's progress on nine sustainable priorities, including reductions in its carbon footprint.<sup>88</sup> Social audits and sustainability reports together constitute *triple-bottom-line reporting*—measuring the social, environmental, and economic performance of a company. Vancouver City Savings Credit Union (Vancity) uses triple-bottom-line reporting.<sup>89</sup> Companies that adopt mandatory sustainability reporting requirements see positive effects on corporate performance.<sup>90</sup>

**SUSTAINABLE DEVELOPMENT** Activities that meet current needs, but will not put future generations at a disadvantage when they try to meet their needs.

**SOCIAL AUDIT** A systematic analysis of how a firm is using funds earmarked for social-responsibility goals and how effective these expenditures have been.



<<< Ronald McDonald House helps the families of children who are in hospital care. It is supported by McDonald's and is an excellent example of socially responsible behaviour by a business.

Enigma/Alamy

The Global 100 list of the most sustainable corporations in the world is based on factors like energy productivity (the ratio of sales to energy consumption) and water productivity (sales to water usage). In the 2015 ranking, Biogen Idec was first, Allergan second, and Adidas third. Several Canadian companies made the list, including Tim Hortons (ranked #11), Teck Resources (#29), Telus (#37), and Bombardier (#57).<sup>91</sup>

## INFORMAL ACTIVITIES

At the *informal level*, the culture of the organization (see Chapter 6) is very important in either inhibiting or facilitating social responsibility activities. Although members of the organization may not actually talk much about the culture, it can have a strong influence on their attitudes and behaviour, including their view of social responsibility. When organiza-

tional leaders demonstrate ethical leadership as part of the organizational culture, that will also convey to employees that socially responsible behaviour is valued.

Whistle-blowing behaviour by employees is another facet of informal activities that can enhance social responsibility (even though some members of top management may view such behaviour negatively). How an organization responds to whistle-blowing gives some insight into its actual stance on social responsibility. An employee who observes questionable behaviour usually reports the incident to his or her boss first. If nothing is done, the whistle-blower may then take more formal steps and report to higher-level managers or to an ethics committee. Eventually, the person may have to go to a regulatory agency or even the media to be heard. Whistle-blowing typically does not become a truly formal activity until the employee cannot get any satisfaction within the company.

# LO-5 SOCIAL RESPONSIBILITY AND THE SMALL BUSINESS

In the most general sense, small businesses face many of the same ethical and social-responsibility issues as large businesses. But small business owners face many specific ethical dilemmas that have an immediate (and perhaps profound) effect on their business. For example, as the owner of a small garden supply store, how would you respond to a building inspector's suggestion that a cash payment would "expedite" your application for a building permit? As the manager of a nightclub, would you call the police, refuse service, or sell liquor to a customer whose ID card looked forged? Or, as the owner of a small medical laboratory, would you call the board of health to make sure that it has licensed the company you want to contract with to dispose of the lab's medical waste? As the owner of a small manufacturing firm, are you justified in overcharging by 5 percent a

customer whose purchasing agent is lax? As the owner of a small computer services company, should you pad your income statement a bit to increase the chance that you will get a much-needed bank loan?

Other dilemmas present themselves to small business owners in the form of social responsibility issues. For example, can a small business afford to pursue CSR objectives? Should it sponsor hockey teams, make donations to the United Way, and buy light bulbs from the Lion's Club? Should it join the chamber of commerce and support the Better Business Bureau because it is the responsible thing to do or just because it is good business? Most of these decisions have financial implications, and the owners of many small firms feel that they do not have any financial flexibility.

## MyBizLab

Study, practise, and explore real business situations with these helpful resources:

- **Interactive Lesson Presentations:** Work through interactive presentations and assessments to test your knowledge of business concepts.
- **Study Plan:** Check your understanding of chapter concepts with self-study quizzes.
- **Dynamic Study Modules:** Work through adaptive study modules on your computer, tablet, or mobile device.
- **Simulations:** Practise decision-making in simulated business environments.
- **Videos:** Learn more about the business practices and strategies of real companies.

LEARNING  
OBJECTIVES**LO-1 EXPLAIN HOW INDIVIDUALS DEVELOP THEIR PERSONAL CODES OF ETHICS AND WHY ETHICS ARE IMPORTANT IN THE WORKPLACE.**

Individual *codes of ethics* are derived from social standards of right and wrong. Ethical behaviour is behaviour that conforms to generally accepted social norms concerning beneficial and harmful actions. Because ethics affect the behaviour of individuals on behalf of the companies that employ them, many firms are adopting formal statements of ethics. Unethical behaviour can result in loss of business, fines, and even imprisonment.

**LO-2 DISTINGUISH ETHICS FROM SOCIAL RESPONSIBILITY AND IDENTIFY ORGANIZATIONAL STAKEHOLDERS.**

*Ethics* are individual beliefs about what is right and wrong, while *social responsibility* refers to the way a firm attempts to balance its commitments to organizational stakeholders. Stakeholders are individuals, groups, and organizations that are directly affected by the practices of an organization and that, therefore, have a stake in its performance. The stakeholders that businesses usually pay the most attention to are *investors, employees, customers, and local communities*. Businesses formerly paid almost exclusive attention to investors, but public pressure and government regulations have forced businesses to consider other stakeholders as well.

**LO-3 SHOW HOW THE CONCEPT OF SOCIAL RESPONSIBILITY APPLIES BOTH TO ENVIRONMENTAL ISSUES AND TO A FIRM'S RELATIONSHIPS WITH CUSTOMERS, EMPLOYEES, AND INVESTORS.**

Social responsibility toward the environment requires firms to minimize pollution of air, water, and land. Social responsibility toward customers requires firms to provide products of acceptable quality, to price products fairly, and to respect consumers' rights. Social responsibility toward employees requires firms to respect workers both as resources and as people who are more productive when their needs are met. Social responsibility toward investors requires firms to manage their resources and to represent their financial status honestly.

**LO-4 IDENTIFY FOUR GENERAL APPROACHES TO SOCIAL RESPONSIBILITY AND DESCRIBE THE FOUR STEPS A FIRM MUST TAKE TO IMPLEMENT A SOCIAL RESPONSIBILITY PROGRAM.**

An *obstructionist* stance on social responsibility is taken by a firm that does as little as possible to address social or environmental problems and that may deny or attempt to cover up problems that may occur. The *defensive* stance emphasizes compliance with legal minimum requirements. Companies adopting the *accommodative* stance go beyond minimum activities, if asked. The *proactive* stance commits a company to actively seeking to contribute to social projects. Implementing a social responsibility program entails four steps: (1) drafting a policy statement with the support of top management, (2) developing a detailed plan, (3) appointing a director to implement the plan, and (4) conducting social audits to monitor results.

**LO-5 EXPLAIN HOW ISSUES OF SOCIAL RESPONSIBILITY AND ETHICS AFFECT SMALL BUSINESSES.**

Managers and employees of small businesses face many of the same ethical questions as their counterparts at larger firms; they also face the same issues of social responsibility and the same need to decide on an approach to social responsibility. The differences are primarily differences of scale.

# QUESTIONS AND EXERCISES

## QUESTIONS FOR ANALYSIS

1. In what ways do you think your personal code of ethics might clash with the practices of some companies? How might you resolve these differences?
2. What kind of company wrong doing would most likely prompt you to be a whistle-blower? What kind of wrong doing would be least likely? Explain the difference.
3. In your opinion, which area of social responsibility is most important to you? Why? Are there areas other than those noted in this chapter that you consider important as well? Describe these areas, and indicate why they are important.
4. Identify some specific social responsibility issues that might be faced by small business managers and employees in each of the following areas: environment, customers, employees, and investors.
5. Choose a product or service and explain the social responsibility concerns that are likely to be evident in terms of the environment, customers, employees, and investors.
6. Analyze the forces that are at work from both a company's perspective and a whistle-blower's perspective. Given these forces, what characteristics would a law to protect whistle-blowers have to have to be effective?

## APPLICATION EXERCISES

7. Write a one-paragraph description of an ethical dilemma you faced recently (including the outcome). Analyze the situation using the ideas presented in this chapter. Make particular reference to the ethical norms of utility, rights, justice, and caring in terms of how they impacted the situation. What would each of these suggest about the correct decision? Is this analysis consistent with the outcome that actually occurred? Why or why not?
8. Go to the website of the Center for Ethics and Business at Loyola Marymount University ([lmu.edu/Page23849.aspx](http://lmu.edu/Page23849.aspx)) and take the quiz entitled "What's Your Ethical Style?" Analyze what your score implies about how you are likely to react when you are faced with an ethical dilemma.
9. Develop a list of the major stakeholders of your college or university. What priority does the school assign to these stakeholders? Do you agree or disagree with this priority? Explain your reasoning.
10. Interview the owner of a local small business. Ask the owner to (a) describe the kinds of socially responsible activities the company is currently involved in and (b) identify the factors that facilitate and inhibit socially responsible behaviour in small businesses.

## TEAM EXERCISES

## BUILDING YOUR BUSINESS SKILLS

### TO LIE OR NOT TO LIE: THAT IS THE QUESTION

#### METHOD

**Step 1** Working with four other students, discuss ways in which you would respond to the following ethical dilemmas. When there is a difference of opinion among group members, try to determine the specific factors that influence different responses.

#### GOAL

To encourage students to apply general concepts of business ethics to specific situations.

#### BACKGROUND

Workplace lying, it seems, has become business as usual. According to one survey, one-quarter of working adults said that they had been asked to do something illegal or unethical on the job. Four in ten did what they were told. Another survey of more than 2000 secretaries showed that many employees face ethical dilemmas in their day-to-day work.

- Would you lie about your supervisor's whereabouts to someone on the phone?
- Would you lie about who was responsible for a business decision that cost your company thousands of dollars to protect your own or your supervisor's job?
- Would you inflate sales and revenue data on official company accounting statements to increase stock value?
- Would you say that you witnessed a signature when you did not if you were acting in the role of a notary?

- Would you keep silent if you knew that the official minutes of a corporate meeting had been changed?
- Would you destroy or remove information that could hurt your company if it fell into the wrong hands?

**Step 2** Research the commitment to business ethics at Johnson & Johnson ([www.jnj.com](http://www.jnj.com)) and Texas Instruments ([www.ti.com/corp/docs/csr/2012/corpgov/ethics/accountability.shtml](http://www.ti.com/corp/docs/csr/2012/corpgov/ethics/accountability.shtml)) by clicking on their respective websites. As a group, discuss ways in which these statements are likely to affect the specific behaviours mentioned in Step 1.

**Step 3** Working with group members, draft a corporate code of ethics that would discourage the specific behaviours mentioned in Step 1. Limit your code to a single typewritten page, but make it sufficiently broad to cover different ethical dilemmas.

#### FOLLOW-UP QUESTIONS

1. What personal, social, and cultural factors do you think contribute to lying in the workplace?
2. Do you agree or disagree with the following statement? *The term business ethics is an oxymoron.* Support your answer with examples from your own work experience or that of a family member.
3. If you were your company's director of human resources, how would you make your code of ethics a "living document"?
4. If you were faced with any of the ethical dilemmas described in Step 1, how would you handle them? How far would you go to maintain your personal ethical standards?



## EXERCISING YOUR ETHICS

### ON THE VERGE OF COLLAPSE

#### THE SITUATION

In 2013, the eight-storey Rana Plaza collapsed in Bangladesh. The building was home to five garment factories that produced apparel for a variety of foreign retailers. More than 1000 people died in the collapse, and more than 2500 were rescued, many with severe injuries. Foreign companies found it financially beneficial to work with manufacturers in Bangladesh because wage rates were low.

After the building collapsed, consumer groups began encouraging people to boycott companies with production in Bangladesh. You are the vice-president of Operations for Luxury Brands, a high-end manufacturer of men's and women's apparel. For the past five years, your company has worked closely with several manufacturers in Bangladesh. These partnerships have allowed your company to generate substantial profits. However, your company's risk manager is concerned about continuing to do business in Bangladesh given the negative press about unsafe working conditions and extremely low wages.

#### TEAM ACTIVITY

Assemble a group of four students and assign each group member to one of the following roles:

- Vice-President of Operations for Luxury Brands

- Owner of a factory in Bangladesh
- An employee from the factory in Bangladesh
- Head of a consumer advocacy group

#### ACTION STEPS

1. From the perspective of your assigned role, and before hearing any of your group's comments on this situation, decide what Luxury Brands should do. Write down the reasons for your decision.
2. From the perspective of your assigned role, and before hearing any of your group's comments on this situation, decide what the underlying ethical issues are in this situation. Write down the issues.
3. Gather your group together and reveal, in turn, each member's comments on their choices. Next, reveal the ethical issues listed by each member.
4. Appoint someone to record the main points of agreement and disagreement within the group. How do you explain the results? What accounts for any disagreements?
5. From an ethical standpoint, what does your group conclude is the most appropriate choice for the company in this situation?

## BUSINESS CASE 3

### THE PROBLEM OF CONSUMER SKEPTICISM

In recent years, a consensus seems to be developing that it is important to care for the environment. This "green movement" has motivated many companies to publicize what they are doing to be more eco-friendly. Coca-Cola, for example, pushed its new green image at the 2010 Winter Olympics with its "environmental call to action." Market research suggested that Coke had a lot of work to do to polish up its green image, particularly among consumers in the 13 to 29 age group. Critics have accused Coke of wasting water (it takes 250 litres of water to make one litre of Coca-Cola) and creating a lot of waste for landfills (75 percent of plastic bottles that contain Coca-Cola products end up in landfills). Coke therefore developed a new, eco-friendly container (called the PlantBottle) that is made partly from sugar cane and molasses. The new bottle produces 30 percent fewer emissions because less oil is used in making it.

You might think any attempt by a company to be more eco-friendly would be viewed positively by those who are concerned about protecting the environment. But that isn't the case. Skeptics say that the new Coke bottle really doesn't accomplish much, because it is still mostly plastic. They note that even though plastic bottles are recyclable, most consumers just throw them out, so simply giving consumers access to plastic bottles is a bad idea.

The criticism that Coca-Cola is getting is not unusual. The fact is that almost any proposed green idea can become caught up in controversy that inhibits the progress of green practices. For example, consider the idea of green roofs—that is, planting vegetation on the roofs of buildings (see photo). Some companies have had green roofs for years (e.g., the green roof on the Manulife Centre parkade in Toronto has been there 25 years, and the trees are now three storeys high), but the idea is just now starting to really catch on. Toronto's city council passed a bylaw that mandates green roofs on new commercial buildings and high-rise residential buildings. Starting in 2010, such buildings had to have at least part of their roof space devoted to green plantings.



Bill Brooks/Alamy

It is estimated that a green roof of 350 square metres with 75 percent of its area in greenery would reduce the "heat-island effect" by 26 percent and reduce rainwater runoff by 38 percent. This sounds promising, but critics argue that the new bylaw may actually inhibit the progress of the green movement because it will increase building development costs and limit the options developers can choose from when they are trying to make buildings more environmentally friendly.

The bylaw is seen as one more problem that developers must solve before they can build. And during those periods when the economy is

in a fragile state, that is a problem. The recession of 2008 to 2009, for example, caused many businesses to put eco-friendly plans on hold. Horizon Air, a U.S.-based airline, had planned to replace its regional jets with new Q400 turboprops made by Bombardier. The new planes burn 30 percent less fuel and therefore produce fewer emissions. But the economic slowdown forced the company to put those plans on hold. Another example: Clear Skies Solar cancelled plans to build a 1 megawatt solar plant because it couldn't get enough financial backing. The plans were cancelled even though government grants are available for the development of solar power.

Consumer attitudes about eco-friendly behaviour can also limit the success of green products. A survey by the Boston Consulting Group in Toronto showed that one-third of Canadians say they often purchase environmentally friendly products, but 78 percent are unwilling to pay the higher price that is often evident for green products. Another online survey of 1000 Canadians showed that people are willing to do certain small things (e.g., buying environmentally friendly light bulbs), but they are skeptical about adopting bigger measures. A third study, conducted by Procter & Gamble (P&G), showed that consumers are reluctant to spend more money just because a product is eco-friendly. Only 10 percent of consumers who were surveyed said they would pay a higher price (or accept a performance decrease) for a product that would benefit the environment. What's worse, 75 percent said they would not accept any tradeoff. So P&G is now focusing on developing sustainable innovation products that are more eco-friendly than earlier products, but that cost about the same price and have the same quality.

Another survey of 10 000 people from Canada and nine other countries analyzed the willingness of consumers to pay a premium for things like improved water quality, renewable (green) energy, and organic food. Here are some illustrative results:

- For improved water quality: on average, respondents were willing to pay a 7.5 percent premium on the median amount of their water bill.
- For renewable energy: 50 percent of respondents said they weren't willing to pay any premium, 48 percent were willing (on average) to pay a 5 percent premium; 2 percent were willing to pay a 30 percent premium.
- For organic food: 30 percent said they weren't willing to pay any premium; one-third said they would pay a premium between 1 and 5 percent; 2 percent were willing to pay a 50 percent premium.

The level of acceptance of green products has also been influenced by individuals who argue that the green movement has gone too far, and that too many consumers are suffering from eco obsessive-compulsive disorder (consumers being compulsively obsessed with being green in terms of the products they buy). Skeptics argue, for example, that the green movement negatively affects economic growth and increases unemployment. One study in Spain showed that every "green" job that was created destroyed 2.2 jobs elsewhere in the economy. The study concluded that government spending on renewable energy was only half as effective at creating new jobs as an equivalent amount of spending by the private sector.

Consumers may also be reluctant to spend money on eco-friendly products because they are confused by the green claims being made by various companies. The Boston Consulting Group study mentioned above also found that consumers are confused about the green options that are available because there is such a wide array of eco-labels on products. Ecolabelling.org is a Vancouver-based company that has

identified 274 eco-labels, 23 of them originating in Canada. There are labels touting compostable products, fair-trade products, energy-efficient products, forest stewardship products, lake-friendly products, and organic products. These eco-labels are supposed to help consumers sift through environmental claims, but what do these labels actually mean? How can shoppers know which products are really eco-friendly and which ones are simply hype? The only thing that seems reasonably certain is that consumers are willing to pay a price premium in the short run if it leads to obvious long-term gains (e.g., an energy-efficient refrigerator costs more than a regular one, but it saves money in the long run due to lower electric bills).

There are people trying to help consumers sort through the maze of conflicting claims. Dara O'Rourke, a university professor, has developed a website called GoodGuide that allows consumers to identify the ingredients found in the products they buy. The website reports on both the environmental impact of products as well as their health effects. Website visitors enter a product name and get a score. The higher the score, the safer and more environmentally friendly the product is. O'Rourke's goal is to help consumers get past the green claims of companies to the facts. The goal is to really change the system. Instead of having companies telling consumers what to believe about their products, the idea is to have consumers tell companies what is important to them in the products they buy.

Consumers may also become confused as they try to balance contradictory objectives about products. This problem can be clearly seen in automobile products. On the one hand, we need to sharply reduce carbon emissions by discouraging the use of gas-guzzling cars. This goal could be achieved by raising fuel-efficiency standards. But a study by the Boston Consulting Group concluded that fuel-saving improvements that reduce emissions by 40 percent would also raise the price of the average car by \$2000. On the other hand, the governments of both the United States and Canada are giving billions of dollars to Chrysler and General Motors in an attempt to save jobs at two companies that have historically produced gas-guzzling cars. These billions of dollars would move us toward the goal of reduced carbon emissions if Chrysler and General Motors could start producing green cars at a price consumers could afford, but industry experts say they can't (at least not in the near term). GM's all-electric car, the Volt, is too expensive to be purchased by a lot of consumers, and GM's financial problems mean that it cannot risk the kind of money it formerly would have on a new product. It is also true that when gas prices are relatively low, consumers don't seem overly interested in green cars. Profit margins are small on green cars, and that is yet another limiting factor.

To cope with all this complexity, consumers need a good measure of ecological intelligence to help them make the distinction between style and substance in ecological claims. One proposal is for consumers to use something called Life Cycle Analysis, which calculates the carbon footprint of various activities (e.g., a round-trip flight from Vancouver to Hong Kong, or a bouquet of flowers flown to Toronto from Kenya). But there is no guarantee that providing such detailed information would cause consumers to change their purchasing patterns. Organic foods and so-called "fair trade" products have been around for years, yet most people ignore them.

## QUESTIONS FOR DISCUSSION

1. Summarize in your own words the major factors that can inhibit the progress toward greener practices on the part of businesses and consumers.

2. Electric cars create far less pollution than cars powered by the internal combustion engine. In spite of their environmentally friendly nature, it may be quite a few years before there are a lot of electric cars on the road. Why might this be so?
3. Consider the following statement: *It is not worthwhile to provide consumers with detailed information about the content of products*

*or the carbon footprint of various activities, because most consumers simply won't use the information. Consumers are struggling to get along financially from day to day, and they don't have the time or inclination to use such information. Do you agree or disagree? Explain your reasoning.*

# Business Law

**Law** means the set of rules and standards that a society agrees upon to govern the behaviour of its citizens. Both the British and the French influenced the development of law in Canada. In 1867, the British North America (BNA) Act created the nation of Canada. The BNA Act was “patriated” to Canada in 1982 and is now known as the Constitution Act. This act divides legislative powers in Canada between the federal and provincial governments.

## SOURCES OF LAW

The law in Canada has evolved and changed in response to our norms and values. Our laws have arisen from three sources: (1) customs and judicial precedents (the source of common law), (2) the actions of provincial and federal legislatures (the source of statutory law), and (3) rulings by administrative bodies (the source of administrative law).

**Common law** is the unwritten law of England, derived from ancient precedents and judges’ previous legal opinions. Common law is based on the principle of equity, the provision to every person of a just and fair remedy. Canadian legal customs and traditions derive from British common law. All provinces except Quebec, which uses the French Civil Code, have laws based on British common law, and court decisions are often based on precedents from common law. That is, decisions made in earlier cases that involved the same legal point will guide the court.

**Statutory law** is written law developed by city councils, provincial legislatures, and parliament. Most law in Canada today is statutory law.

**Administrative law** is the rules and regulations that government agencies and commissions develop based on their interpretations of statutory laws. For example, Consumer and Corporate Affairs Canada develops regulations on false advertising using federal legislation.

## THE COURT SYSTEM

In Canada, the judiciary branch of government has the responsibility of settling disputes among organizations or individuals by applying existing laws. Both provincial and federal courts exist to hear both criminal and civil cases. The Supreme Court of Canada is the highest court in Canada. It decides whether to hear appeals from lower courts.

## BUSINESS LAW

Business firms, like all other organizations, are affected by the laws of the country. **Business law** refers to laws that specifically affect how business firms are managed. Some laws affect all businesses, regardless of size, industry, or location. For example, the Income Tax Act requires businesses to pay income tax. Other laws may have a greater impact on one industry than on others. For example, pollution regulations are of much greater concern to Vale, a mining corporation, than they are to Carlson Wagonlit Travel.

Business managers should have at least a basic understanding of the following nine important concepts in business law:

1. contracts
2. agency
3. bailment
4. property
5. warranty
6. trademarks, patents, and copyrights
7. torts
8. negotiable instruments
9. bankruptcy

## CONTRACTS

Agreements about transactions are common in a business’s day-to-day activity. A **contract** is an agreement between two parties to act in a specified way or to perform certain acts. A contract might, for example, apply to a customer buying a product from a retail establishment or to two manufacturers agreeing to buy products or services from each other. A contract may be either **express** or **implied**. An express contract clearly specifies (either orally or in writing) the terms of an agreement. By contrast, an implied contract depends on the two parties’ behaviours. For example, if you hire a fishing guide to help you catch fish, you have an implied contract that obligates you to pay the fishing guide for the service you receive.

A valid contract includes several elements:

- **An agreement.** All parties must consciously agree to the contract.
- **Consideration.** The parties must exchange something of value (e.g., time, products, services, money, and so on).
- **Competence.** All parties to the contract must be legally able to enter into an agreement. Individuals who are below a certain age or who are legally insane, for example, cannot enter into legal agreements.

**LAW** The set of rules and standards that a society agrees upon to govern the behaviour of its citizens.

**COMMON LAW** The unwritten law of England, derived from precedent and legal judgments.

**STATUTORY LAW** Written law developed by city councils, provincial legislatures, and parliament.

**ADMINISTRATIVE LAW** The rules and regulations that government agencies and commissions develop based on their interpretations of statutory laws.

**BUSINESS LAW** Laws that specifically affect how business firms are managed.

**CONTRACT** An agreement between two parties to act in a specified way or to perform certain acts.

**EXPRESS CONTRACT** Clearly specifies the terms of an agreement.

**IMPLIED CONTRACT** Specifies the necessary behaviours of the parties to the contract.

- **Legal purpose.** What the parties agree to do for or with each other must be legal. An agreement between two manufacturers to fix prices is not legal.

The courts will enforce a contract if it meets the criteria described above. Most parties honour their contracts, but occasionally one does not do what it was supposed to do. **Breach of contract** occurs when a party to an agreement fails, without legal reason, to live up to the agreement's provisions. The party that has not breached the contract has three alternatives under the law in Canada: (1) discharge, (2) sue for damages, or (3) require specific performance.

An example will demonstrate these three alternatives. Suppose that Barrington Farms Inc. agrees to deliver 100 dozen long-stemmed roses to the Blue Violet Flower Shop the week before Mother's Day. One week before the agreed-upon date, Barrington informs Blue Violet that it cannot make the delivery until after Mother's Day. Under the law, the owner of Blue Violet can choose among any of the following actions.

1. **Discharge.** Blue Violet can also ignore its obligations in the contract. That is, it can contract with another supplier.
2. **Sue for damages.** Blue Violet can legally demand payment for losses caused by Barrington's failure to deliver the promised goods on time. Losses might include any increased price Blue Violet would have to pay for the roses or court costs incurred in the damage suit.
3. **Require specific performance.** If monetary damages are not sufficient to reimburse Blue Violet, the court can force Barrington to live up to its original contract.

## AGENCY

In many business situations, one person acts as an agent for another person. Well-known examples include actors and athletes represented by agents who negotiate contracts for them. An **agency-principal relationship** is established when one party (the agent) is authorized to act on behalf of another party (the principal).

The agent is under the control of the principal and must act on behalf of the principal and in the principal's best interests. The principal remains liable for the acts of the agent as long as the agent is acting within the scope of authority granted by the principal. A salesperson for IBM, for example, is an agent for IBM, the principal.

## BAILMENT

Many business transactions are not covered by the agency-principal relationship. For example, suppose that you take your car to a mechanic to have it repaired. Because the repair shop has temporary possession of something you own, it is responsible for your car. This is a bailor-bailee relationship. In a **bailor-bailee relationship**, the bailor (e.g., the car owner) gives possession of his or her property to the bailee (e.g., the repair shop) but retains ownership of the item. A business firm that stores inventory in a public warehouse is in a bailor-bailee relationship. The business firm is the bailor and the warehouse is the bailee. The warehouse is responsible for storing the goods safely and making them available to the manufacturer upon request.

## THE LAW OF PROPERTY

**Property** includes anything of tangible or intangible value that the owner has the right to possess and use. **Real property** is land and any permanent buildings attached to that land. **Personal property** is tangible or intangible assets other than real property. Personal property includes

cars, clothing, furniture, money in bank accounts, stock certificates, and copyrights.

## TRANSFERRING PROPERTY

From time to time, businesses and individuals need to transfer property to another person or business. A **deed** is a document that shows ownership of real property. It allows the transfer of title of real property.

A **lease** grants the use of an asset for a specified period of time in return for payment. The business or individual granting the lease is the lessor and the tenant is the lessee. For example, a business (the lessee) may rent space in a mall for one year from a real estate development firm (the lessor).

A **title** shows legal possession of personal property. It allows the transfer of title of personal property. When you buy a snowmobile, for example, the former owner signs the title over to you.

## WARRANTY

When you buy a product or service, you want some assurance that it will perform satisfactorily and meet your needs. A **warranty** is a promise that the product or service will perform as the seller has promised it will.

There are two kinds of warranties—express and implied. An **express warranty** is a specific claim that the manufacturer makes about a product. For example, a warranty that a screwdriver blade is made of case-hardened steel is an express warranty. An **implied warranty** suggests that a product will perform as the manufacturer claims it will. Suppose that you buy an outboard motor for your boat and the engine burns out in one week. Because the manufacturer implies by selling the motor that it will work for a reasonable period of time, you can return it and get your money back.

Because opinions vary on what is a "reasonable" time, most manufacturers now give limited-time warranties on their products. For example, they will guarantee their products against defects in materials or manufacture for six months or one year.

**BREACH OF CONTRACT** When one party to an agreement fails, without legal reason, to live up to the agreement's provisions.

**AGENCY-PRINCIPAL RELATIONSHIP** Established when one party (the agent) is authorized to act on behalf of another party (the principal).

**BAILOR-BAILEE RELATIONSHIP** In a bailor-bailee relationship, the bailor (the property owner) gives possession of his or her property to the bailee (a custodian) but retains ownership of the item.

**PROPERTY** Anything of tangible or intangible value that the owner has the right to possess and use.

**REAL PROPERTY** Land and any permanent buildings attached to that land.

**PERSONAL PROPERTY** Tangible or intangible assets other than real property.

**DEED** A document that shows ownership of real property.

**LEASE** Grants the use of an asset for a specified period of time in return for payment.

**TITLE** Shows legal possession of personal property.

**WARRANTY** A promise that the product or service will perform as the seller has promised it will.

**EXPRESS WARRANTY** A specific claim that the manufacturer makes about a product.

**IMPLIED WARRANTY** A suggestion that a product will perform as the manufacturer claims it will.

## TRADEMARKS, PATENTS, AND COPYRIGHTS

Because developing brand names is very expensive, companies do not want others using their brand name and confusing consumers. Many companies therefore apply to the Canadian government and receive a **trademark**, which is the exclusive legal right to use a brand name. Trademarks are granted for 15 years and may be renewed for further periods of 15 years, but only if the company continues to protect its brand name. In 2008, a European court ruled that the construction toys made by LEGO could no longer be protected by trademark law. Montreal-based Mega Brands Inc., which makes a competitive product called Mega-Bloks, had challenged LEGO's trademark.<sup>92</sup>

Just what can be trademarked is not always clear. If the company allows the name to lapse into common usage, the courts may take away protection. Common usage occurs when the company fails to use the ® (registered) symbol for its brand. It also occurs if the company fails to correct those who do not acknowledge the brand as a trademark. Windsurfer, a popular brand of sailboards, lost its trademark, and the name can now be used by any sailboard company. The same thing has happened to other names that were formerly brand names—trampoline, yo-yo, thermos, snowmobile, kleenex, and aspirin. But companies like Xerox, Coca-Cola, Jell-O, and Scotch tape have successfully defended their brand names.

A **patent** protects an invention or idea for a period of 20 years. The cost is \$1600 to \$2500 and it takes 18 months to three years to secure a patent from the Canadian Intellectual Property Office.<sup>93</sup> Patents can be very valuable. In 2006, BlackBerry agreed to pay \$612.5 million to NTP Inc., a U.S. firm that claimed BlackBerry was infringing on some patents that NTP held.<sup>94</sup> In 2010, BlackBerry was found not guilty by a judge in the United Kingdom for a claim by Motorola.<sup>95</sup> In yet another patent dispute, Pfizer Inc. reached an agreement in 2008 with an Indian generic drug maker that kept a cheaper version of the cholesterol-lowering drug Lipitor out of the U.S. market until 2011. Sales revenues of Lipitor are about US\$13 billion annually, so this was a very important deal for Pfizer.<sup>96</sup>

**Copyrights** give exclusive ownership rights to the creators of books, articles, designs, illustrations, photos, films, and music. Computer programs and even semiconductor chips are also protected. Copyrights extend to creators for their entire lives and to their estates for 50 years thereafter. Copyrights apply to the tangible expressions of an idea, not to the idea itself. For example, the idea of cloning dinosaurs from fossil DNA cannot be copyrighted, but Michael Crichton, the author of *Jurassic Park*, could copyright his novel because it is the tangible result of the basic idea.

There is much debate about how copyrights apply to material that appears on the internet. In 2005, the U.S.-based Authors Guild and several publishers sued Google, claiming that its book-scanning project was infringing on their copyrights. In 2008, Google agreed to pay US\$125 million to settle the lawsuits. Google can now make available millions of books online.<sup>97</sup> The issue of file sharing is making copyright a big issue these days. New laws and new interpretations of old ones will redefine the role of copyright over the next few years.

## TORTS

A **tort** is a wrongful civil act that one party inflicts on another and that results in injury to the person, to the person's property, or to the person's good name. An **intentional tort** is a wrongful act intentionally committed. If a security guard in a department store suspects someone of shoplifting and uses excessive force to prevent him or her from leaving the store, the guard might be guilty of an intentional tort. Other examples are libel, embezzlement, and patent infringement.

**Negligence** is a wrongful act that inadvertently causes injury to another person. For example, if a maintenance crew in a store mops the floors without placing warning signs in the area, a customer who slips and falls might bring a negligence suit against the store.

In recent years, the most publicized area of negligence has been product liability. **Product liability** means that businesses are liable for injuries caused to product users because of negligence in design or manufacturing. **Strict product liability** means that a business is liable for injuries caused by their products even if there is no evidence of negligence in the design or manufacture of the product.

## NEGOTIABLE INSTRUMENTS

**Negotiable instruments** can be transferred among individuals and business firms. Cheques, bank drafts, and certificates of deposit are examples of negotiable instruments. The Bills of Exchange Act specifies that a negotiable instrument must:

- be written
- be signed by the person who puts it into circulation (the maker or drawer)
- contain an unconditional promise to pay a certain amount of money
- be payable on demand
- be payable to a specific person (or to the bearer of the instrument)

Negotiable instruments are transferred from one party to another through an endorsement. An **endorsement** means signing your name to a negotiable instrument—this makes it transferable to another person or organization. If you sign only your name on the back of a cheque, you are making a blank endorsement. If you state that the instrument is being transferred to a specific person, you are making a special endorsement. A qualified endorsement limits your liability if the instrument is not backed up by sufficient funds. For example, if you get a cheque from a friend and want to use it to buy a new stereo, you can write "Without Recourse" above your name. If your friend's cheque bounces, you have no liability. A restrictive endorsement limits the negotiability of the instrument. For example, if you write "For Deposit Only" on the back of a cheque and it is later stolen, no one else can cash it.

**TRADEMARK** The exclusive legal right to use a brand name.

**PATENT** Protects an invention or idea for a period of 20 years.

**COPYRIGHT** Exclusive ownership rights granted to creators for the tangible expression of an idea.

**TORT** A wrongful civil act that one party inflicts on another and that results in injury to the person, to the person's property, or to the person's good name.

**INTENTIONAL TORT** A wrongful act intentionally committed.

**NEGLIGENCE** A wrongful act that inadvertently causes injury to another person.

**PRODUCT LIABILITY** The liability of businesses for injuries caused to product users because of negligence in design or manufacturing.

**STRICT PRODUCT LIABILITY** The liability of businesses for injuries caused by their products even if there is no evidence of negligence in the design or manufacture of the product.

**NEGOTIABLE INSTRUMENTS** Instruments like cheques, bank drafts, and certificates of deposit that can be transferred among individuals and business firms.

**ENDORSEMENT** Signing your name to a negotiable instrument, making it transferable to another person or organization.

## BANKRUPTCY

At one time, individuals who could not pay their debts were jailed. Today, however, both organizations and individuals can seek relief by filing for **bankruptcy**, which is the court-granted permission to not pay some or all of their debts.

Thousands of individuals and businesses file for bankruptcy every year. They do so for various reasons, including cash-flow problems, reduced demand for their products, or some other problem that makes it difficult or impossible for them to resolve their financial problems. In recent years, large businesses like Eaton's, Olympia & York, and Enron have sought the protection of bankruptcy laws. Three main factors account for the increase in bankruptcy filings:

1. the increased availability of credit
2. the "fresh-start" provisions in current bankruptcy laws
3. the growing acceptance of bankruptcy as a financial tactic

In Canada, jurisdiction over bankruptcy is provided by the Bankruptcy and Insolvency Act. An **insolvent person (or company)** is defined as one who cannot pay current obligations to creditors as they come due, or whose debts exceed their assets. A **bankrupt person (or company)** is one who has either made a voluntary application to start bankruptcy proceedings (voluntary bankruptcy) or been forced by creditors into bankruptcy (involuntary bankruptcy) by a process referred to as a *receiving order*. A person who is insolvent may or may not be bankrupt, and a person who is bankrupt may or may not be insolvent, as there are other bases for bankruptcy under the Act. Another procedure under the Act is referred to as a proposal, which can delay or avoid liquidation by providing the debtor with time to reorganize affairs and/or propose a payment schedule to creditors.

Business bankruptcy under the Act may be resolved or avoided by one of three methods:

1. Under a liquidation plan, the business ceases to exist. Its assets are sold and the proceeds are used to pay creditors.
2. Under a repayment plan, the bankrupt company works out a new payment schedule to meet its obligations. The time frame is usually extended, and payments are collected and distributed by a court-appointed trustee.
3. Reorganization is the most complex form of business bankruptcy. The company must explain the sources of its financial difficulties

and propose a new plan for remaining in business. Reorganization may include a new slate of managers and a new financial strategy. A judge may also reduce the firm's debts to ensure its survival. Although creditors naturally dislike debt reduction, they may agree to the proposal, since getting, say, 50 percent of what you are owed is better than getting nothing at all.

## THE INTERNATIONAL FRAMEWORK OF BUSINESS LAW

Laws vary from country to country, and many businesses today have international markets, suppliers, and competitors. Managers in such businesses need a basic understanding of the international framework of business law that affects the ways in which they can do business. Issues such as pollution across borders are matters of **international law**—the very general set of co-operative agreements and guidelines established by countries to govern the actions of individuals, businesses, and nations themselves.

International law has several sources. One source is custom and tradition. Among countries that have been trading with one another for centuries, many customs and traditions governing exchanges have gradually evolved into practice. Although some trading practices still follow ancient unwritten agreements, there has been a clear trend in recent years to approach international trade within a formal legal framework. Key features of that framework include a variety of formal trade agreements (see Chapter 5).

Organizations such as the WTO and EU also provide legal frameworks within which participating nations agree to abide.

**BANKRUPTCY** The court-granted permission for organizations or individuals to not pay some or all of their debts.

**INSOLVENT PERSON (OR COMPANY)** One who cannot pay current obligations to creditors as they come due, or whose debts exceed their assets.

**BANKRUPT PERSON (OR COMPANY)** One who has either made a voluntary application to start bankruptcy proceedings (voluntary bankruptcy) or has been forced by creditors into bankruptcy (involuntary bankruptcy) by a process referred to as a receiving order.

**INTERNATIONAL LAW** The very general set of co-operative agreements and guidelines established by countries to govern the actions of individuals, businesses, and nations themselves.