

Chapter 4 Summary

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Chapter 4 explains the Institutionalization of Business Ethics. These are the key ideas that were explained throughout chapter 4.

The first segment of chapter 4 explains managing ethical risks through voluntary and mandated programs. Voluntary practices are the beliefs, values, and voluntary obligations an organization puts into practice. Almost all business commit to voluntary practices because it benefits both the internal and external stakeholders. Mandatory programs are laws, rules, and regulations that are imposed externally by state and federal government through legislation.

Next, chapter 4 explains the mandated requirements for legal compliance. These mandates would be laws and regulations. There are 5 categories that these laws and regulations fall into:

1. Regulation of Competition. Intense competition in the market place can often lead companies to feel a serious threat to how successful they can be. This threat often causes businesses and organizations to act in an unethical way. Large companies such as Wal-mart and Home Depot have the potential to ruin small businesses. The text cites an example that consumers in Austin, TX would boycott large chain stores such as Borders Books and Music because it would eliminate all of the smaller book store and music shops in the area. Another example would be Clear Channel Communications, which owns 10% of radio stations nation wide, was using unfair tactics that led to a monopoly in many large market areas.

Laws have been passed to prevent monopolies and eliminate unethical pricing practices. The Sherman Act of 1890 prohibits any organization or business to have a complete monopoly in there industry.

2. Protection of Consumers. Laws have been passed that make business provide their consumer with information about their products. The first consumer protection law in 1906 made the way for other legislation. This includes the Pure Food and Drug Act, which prohibits mislabeling of foods and drugs, and recently the Nutritional Labeling and Education Act, which requires all processed food to have nutritional information. The main idea of protecting the consumers is to keep the consumer informed about the product or service.

3. Promotion of Equity and Safety. Promotion of Equity and Safety became very popular in the 1960s and 70s with the civil rights movement. One of the most famous forms of legislation is Title XII of the Civil Rights Act. Title XII prohibits discrimination in employment on the basis of race, sex, religion, color, or national origin. This also led to affirmative action. Affirmative action programs were used to increase job opportunities for minorities and women. Many other pieces of legislation were passed to ensure equal job opportunity and pay. Some of them were the Equal Pay Act, which states that women and

men who do the same amount of work must be compensated equally. The American with Disabilities Act also helped eliminate the discrimination against people with disabilities.

Congress has also passes laws that requires a safe working environment. The Occupational Safety and Health Act mandate a safe working environment and enforce the act with surprise inspections.

4. Protection of the Natural Environment. The Environmental Agency was created in 1970 to enforce our nation's environmental laws. Because so many businesses do not meet the criteria of EPA's standards, many businesses will illegally dispose of waste. Because of the high standards, many products, such as 3M's scotch tape, have stopped being produced. The EPA and congress has passed legislation that hopefully eliminates air, water, and noise pollution.

5. Incentives to encourage businesses to be Ethical. The main incentives that encourage businesses to be ethical are the federal sentencing guidelines developed by the U.S. Sentencing-Committee. There are seven guidelines that a company must follow.

In 2002, Congress passed the Sarbanes-Oxley Act. This law was passed due to the growing number of cases in fraud and unethical accounting practices. Many companies were deceiving their stockholders through fraudulent accounting practices. Companies like Enron, WorldCom, and even Kmart all committed unethical behaviors that deceived their own employees and stockholders. The Sarbanes-Oxley Act required companies to be much more transparent. To do this, the companies have to be audited by someone externally, such as an accounting firm.

Some of the benefits of the Sarbanes-Oxley Act include renewed investor confidence, greater protection to employee's retirement programs, and greater penalties to senior management, auditors, and board members. It also gave employees whistle-blower protection. Under Sarbanes-Oxley, employees of a public company are required to report any unethical behavior or practices.

Chapter 4 ends with the topic of Philanthropic Contributions. Many large companies give back to the community for four reasons. The believe philanthropy improves the quality of life, reduces government involvement, develops employee leadership skills, and creates an ethical culture.

The most common way a company gives back is through donations. There is also a Strategic Philanthropy, which is the synergistic and mutually beneficial use of an organization's resources to deal with key stakeholders to bring social benefits.