



Law, Ethics, and Corporate Social Responsibility

Hilary Buttrick

BUTLER

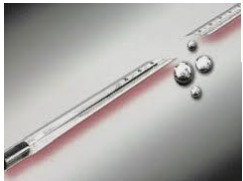
COLLEGE of BUSINESS

Bistro 24 Exercise



You are the part-owner and general manager of Bistro 24, a popular full-service mid-market eatery located in Broad Ripple. Today was the worst day of your professional life. Here are the gory details:

6 PM



10 PM



9 AM

12 PM



How does the law affect business?

- Torts
- Employment law
- Contracts
- Criminal law
- Intellectual property
- Real property
- Environmental law
- Tax law
- Corporate law

Roadmap

- Understand purposes of law
- Understand characteristics of law
- Understand broad classifications of law
- Understand various sources of law
- Understand role of courts in creating and interpreting law



Purposes of Law

- Keeping order
- Influencing conduct
- Honoring expectations
- Promoting equality
- Promoting compromise



Characteristics of a Good Law

- **Generally and equally applicable**
 - Applies to all members of society and applies to various groups in the same way—no special treatment!
- **Enforceable**
 - Formal mechanism to resolve disputes and punish wrongdoers
- **Flexible**
 - Law can adapt to changing societal and business needs
- **Consistent**
 - Law is stable enough to allow individuals and businesses to rely on it for planning purposes
- **Pervasive**
 - Law touches many aspects of life and business to provide a framework for conduct, but allows freedom to operate within that framework



Classifications of Law

- Public Law
 - Enacted by some authorized government body. Example: Federal securities laws
- Private Law
 - Enacted by private individuals
 - Example: the terms of a lease agreement
 - Example: employment agreement



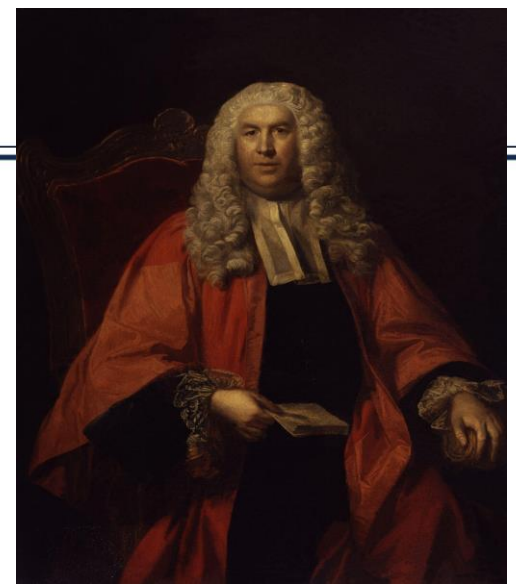
Classifications of Law

- Criminal versus Civil Laws
 - Criminal laws are wrongs against society
 - Civil laws are wrongs against individuals
- Substantive versus Procedural Laws
 - Substantive: Gives rights and responsibilities
 - Ex. Your Constitutional rights
 - Procedural: Means or procedures for enforcing substantive rights
 - Ex. Court procedures, rules of evidence



Classifications of Law

- Statutory Law
 - Passed by governmental body
 - Also known as Codified Law
- Common Law
 - Began in England in 1066 and continues today
 - Non-statutory law
 - Exists in court decisions
 - Following case precedent, or *stare decisis*, “let the decision stand”
 - Ex. Common law claims exist for negligence, fraud, and intentional infliction of emotional distress



Sources of Law—Guidance from the Constitutional Peasant



Sources of Law: How is Law in the U.S. created?

- In general, law in the U.S. is created in four ways:
 - Federal/State Legislation
 - Federal/State Administrative Agencies
 - The Courts
 - Private agreement enforced by Courts



Sources of Law—Federal

- Federal Constitutional Law
 - Establishes government structure
 - Establishes individual rights
 - Defines permissible scope of State power
- Statutory Law at Federal Level
 - Enactments of Congress
 - Ex. Affordable Care Act, Sarbanes-Oxley, etc.
- Administrative agency regulations
 - Promulgated by agencies created by Congress
 - Ex. EPA, OSHA, DOE regulations



Sources of Law—State and Local

- State Constitutions
 - Set forth rights of individuals, structure of State government, scope of State power
 - May grant broader rights than those found in Federal Constitution, but will not trump Federal Constitution
- State Laws/Statutes: enactments of state legislatures
- State administrative agency regulations
 - Ex. IDEM
- Local Laws: ordinances, local rules



Sources of Law—Private Law

- Private Laws—obligations voluntarily agreed to by the parties
 - Contracts
 - Leases
- Parties can seek enforcement of these obligations in Courts



Sources of law—Courts



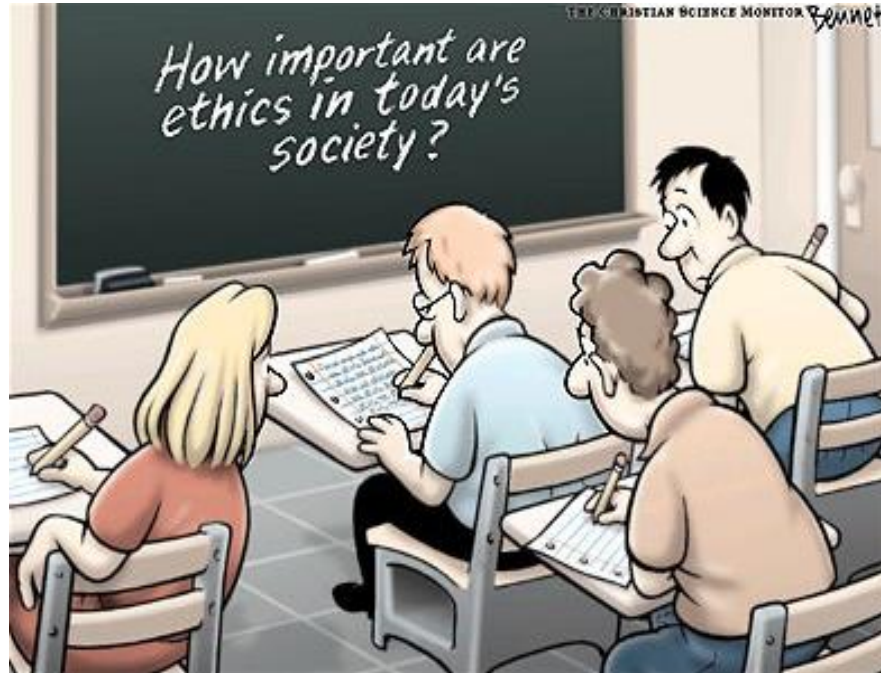
- Courts resolve disputes
- In resolving these disputes, Courts issue opinions, which we call “cases”
- A case is a written Court opinion that becomes law
 - The Court opinion can interpret a **legislative enactment** (like a statute or the Constitution)
 - Ex. IN Wage Payment Statute
 - The Court opinion can set forth an interpretation, extension, or refinement of **common law**
 - Ex. Negligence law

Precedent—*Stare Decisis*

- Courts rely on precedent in rendering decisions.
 - Precedent is a rule of law set forth by a court that is used as the guiding principle for deciding future cases involving similar issues.
- A court should not overturn its own precedent unless there is a compelling reason to do so.
- Decisions made by higher courts are binding on lower courts.



Business Ethics



Roadmap

- Provide a working definition of business ethics
- Obtain a framework for ethical decision making
- Understand the relationship between ethics and law
- Understand impediments to ethical action



What is Business Ethics?

- The specialized study of moral right and wrong focusing on business institutions, organizations, and activities.



Why is it important to have ethics in the business environment?

- It's the right thing to do.
- Builds trust within the organization and leads to stability.
- Encourages good relations with customers.



Approaches to Resolving Ethical Dilemmas

- Blanchard and Peale
 - Is it legal?
 - Is it balanced?
 - How does it make me feel?
- The Front-Page-of-the-Newspaper Test
 - How would the story be reported?
 - Use an objective and informed reporter's view



Approaches to Resolving Ethical Dilemmas

- Laura Nash and Perspective
 - How would I view the problem if I sat on the other side of the fence?
 - Am I able to discuss my decision with my family, friends, and those closest to me?
 - What am I trying to accomplish?
 - Will I feel as comfortable over the long term as I do today?

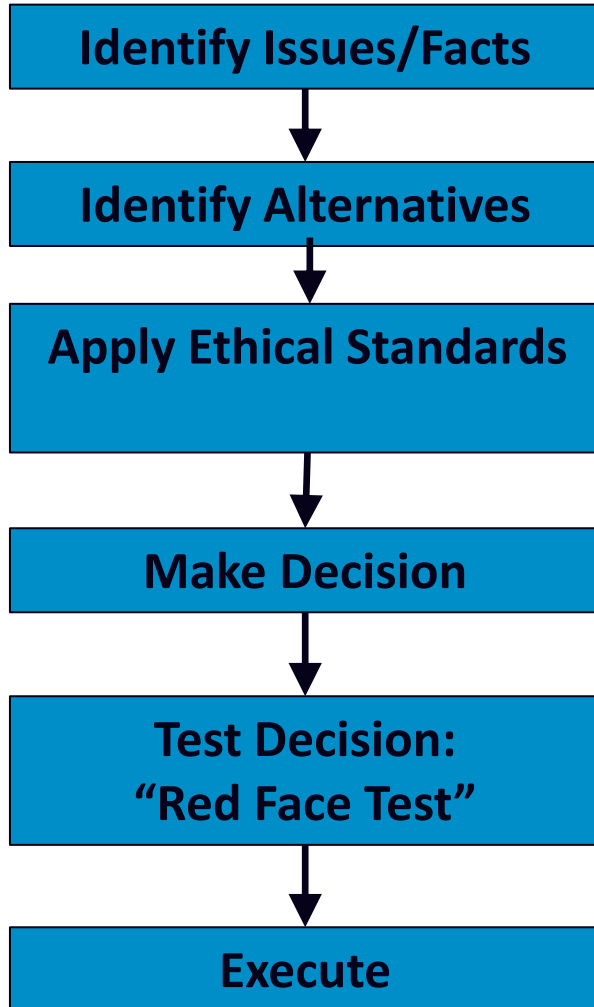


Approaches to Resolving Ethical Dilemmas

- The *Wall Street Journal* Model
 - Compliance: Are you violating any laws?
 - Contribution: What does this action contribute to my customers, shareholders, bondholders, employees, community, and suppliers?
 - Consequences: How will this action affect me, my company, my family, our employees, and our shareholders?



Ethical Decision-Making Framework



- Is it legal?
- Is it balanced?
- How does it make me feel?
- How would it be reported?
- How would I view this if I were on the other side of the fence?
- Can I discuss this decision with my family?
- What are the consequences?
- Does my decision make a positive contribution?

Roadblocks to Ethical Decision-Making

- Organizational culture
- Obedience to authority
- Self-serving rationalizations
 - Denial of responsibility
 - Denial of injury
 - Denial of the victim
 - Condemnation of the condemners
 - Appeal to higher loyalties
 - Everyone else is doing it
 - Claim to entitlement



Law = Ethics?

- Where does the law intersect with ethics?
- If something is legal, is it always ethical?
- If something is ethical, is it always legal?
- Does ethics influence the law?
 - *Soldano v. O’Daniels*
 - *Note:* This case is something of an outlier, but it demonstrates the potential for ethics to drive legal policy
- Law sets the minimum standard of behavior; ethics requires more...



Corporate Social Responsibility



Corporate Social Responsibility

- Corporate Social Responsibility refers to a corporation's responsibilities or obligations toward society.
 - Whose interests should a corporation serve?
 - To whom should a corporation be responsive in order to best serve that interest?
 - Shareholders only
 - Larger society



Two Traditional Views of CSR

- Shareholder view: company's only responsibility is to legally and ethically make money for owners.
 - Profits belong to the shareholders—not management.
 - In a competitive marketplace, companies will have to use resources wisely, provide good customer service, and pay good wages to employees in order for company to stay profitable.
 - Societal benefits are thus a byproduct of seeking to maximize profits in a competitive market.

Two Traditional Views of CSR

- Stakeholder View: Corporations should be run for the benefit of all stakeholders.
 - Managers should give share of profits not only to stockholders, but also to other stakeholders.
 - A stakeholder is any individual who can affect the achievement of the organization's objectives or who is affected by the achievement of the organization's objectives.

