

Short Essays (Economics, Politics, Law and Business)

Scholarly Articles

Legal, Social and Ethical Responsibilities in Business

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Jenna Doucet (2009).

Legal, Social and Ethical Responsibilities in Business

In the past decade, individuals have been questioning legal, social, and ethical issues concerning organizations closer than ever before. With the aid of the media, business practices have become more transparent. Bateman and Stair (2007) State, " There's an increased readiness to believe negative things about corporations today, which makes it a dangerous time for companies " (p.150). In order to remain credible in the public's eye, it is imperative that companies keep good moral ground. Examining the pitfalls of organizations, such as Hollinger International (HII), that have been scrutinized for engaging in legal, social and ethically unsound behaviours, can set organizations on the right path.

Background

Hollinger International Inc. (HII) is a public newspaper publishing company (Boritz and Robinson, 2004). The controversy surrounding HII surfaced in 2003, while the company was under the management of Conrad Black. An article appeared in the Star reporting that Black and his associates faced a total of 42 charges relating to an alleged \$US 60 million in theft, as well as charges of receiving unauthorized bonuses and other perquisites (Westhead and Doolittle, 2007).

Legal responsibility

All companies are subject to legal responsibilities and are required to follow the law, which impact organizations planning process. In order to operate soundly, a company must familiarize itself with external factors that govern the industry that the company operates within. A

legal issue presented in the HII case revolved around Black's breaching of fiduciary and contractual duties by "diverting to another company a valuable opportunity that properly belonged to the corporation (Delaware, 2004, p.1) Black and his associates had received much of their ill-gotten gains from "so-called non competition payments related to Hollinger International's sale of newspapers from 1998 to 2002" (Westhead and Doolittle, 2007). It was reported that in order to transfer HII corporate assets, Black and his associates "failed to disclose material information in required filings with the SEC, that they "falsified corporate books and records" (p.4), and "failed to accurately reflect transactions". Securities legislation requires the disclosure of certain prescribed information concerning the business and affairs of public companies. This includes periodic financial statements, insider trading reports, an annual information form (AIF), press releases and material change reports (Canadian Securities Institute, 2008).

Social responsibility

In order to thrive in the public's eye, a company must meet certain social responsibility requirements, thus in the planning stages it must consider where it can provide value beyond its products and services. For example, a company can meet its social responsibilities by supporting important causes and making charitable donations (Bateman and Stair, 2006). HII made several charitable donations while under Black's management, however, the chief executive's motives are questionable as he was embezzling funds from the very company he was making contributions with (Fabrikant, 2004).

Ethical responsibility

In the planning process, organizations must think about setting guidelines in order to govern their business's practices and to protect the company, its employees and shareholders; this is usually done by establishing ethical codes of conduct. The Caux ethics is a system of principles designed to help organizations establish ground rules for ethical practice. The first principle is to the responsibility of businesses beyond shareholders toward stakeholders and states that "Businesses have a role to play in improving the lives of all their customers, employees, and shareholders by sharing with them the wealth they have created" (Bateman & Stair, 2006, p. 175). Black failed to honor the first principle of HII's ethical responsibility by selling one of its assets, the American Trucker, to another corporation and transferring the US\$ 2 million non-competition agreement payment to a related entity, therefore directly benefiting from the transaction at the expense of HII's shareholders (Boritz and Robinson, 2004).

HII had a legal and ethical code of conduct in place, however, it did not provide adequate protection for the organization and its shareholders. The code of conduct was amended on November 29, 2004 and "provides greater detail to employees, officers and directors on the

company's ethical guidelines in a number of areas" (para 2, SEC). Some of the amended guidelines include, related party transactions, protection and proper use of assets, and public company reporting. The new amendment addresses unethical behavior in such that it is difficult to manipulate the law in order to behave unethically.

Conclusion

Under Black's management, HII has been subject to legal, ethical and social responsibility issues. The poor legal and ethical code of conduct, established by HII, has no doubt played a role in facilitating Black's unethical practices. The downfall of HII is an example of the devastating effects unethical behaviour can have on a company.

References

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2 responses

28 12 2010

Uche Ikiomoworio Omah (22:47:46) :

pls i need answer to this question:what is the legal responsibilities of business to its customers, employee, and shareholders.

Reply

29 12 2010

jennadoucet (00:58:51) :

I think there are many ways to interpret this question and there is more than one answer. In my opinion the legal responsibility of business to its customers is to provide certain standards of care with regard to what they promise of their products (For example, drug companies must disclose all possible side effects as found in testing

on their products as well as the possible benefits). For employees, this is generally easier to define. There are certain employment regulations and laws that corporation must adhere to (For example, minimum wage, holidays, paid vacation ect). In terms of shareholders, companies must make decisions that are in the best interest of shareholders and maximize shareholder value- other responsibilities revolve around the type of shares issued and the types of rights that may be attached to those (such as voting rights). The latter can involve conflicts of interest as one or more responsibilities may collide. A good article that may help you answer this question is: <http://www.referenceforbusiness.com/management/Comp-De/Corporate-Social-Responsibility.html>

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