

chapter

3

Conducting Business Ethically and Responsibly

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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.

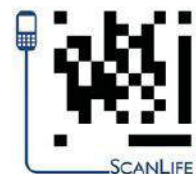
LO-2 Distinguish *social responsibility* from *ethics*, identify *organizational stakeholders*, and characterize social consciousness today.

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.

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What Really Happened at Livent?

Livent Inc., a live theatre company with outlets in Toronto, Vancouver, Chicago, and New York, was founded by Garth Drabinsky and Myron Gottlieb. In 1998, questions were raised about Livent's finances by new owners who had bought into the company. Shortly thereafter, Drabinsky and Gottlieb were fired. They were eventually charged with producing false financial statements to make the company look more profitable than it actually was. The fraud allegedly cost investors and creditors \$500 million. Drabinsky and Gottlieb denied any wrongdoing and claimed that the financial manipulations were carried out by subordinates without their knowledge. After a long delay, their trial finally started in 2008.

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'll 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*.

During the trial, prosecutors called several witnesses who admitted that they had participated in the financial manipulations. But they said that they had done so at the direction of Drabinsky and Gottlieb. Some of their charges were as follows:

- A computer technician said he was asked by the accounting controller to modify accounting software so that changes could be made without auditors detecting them. He said that the vice-president, Gordon Eckstein, told him to carry out the controller's instructions.
- Gordon Eckstein said that he was told by Drabinsky and Gottlieb to carry out the fraud (Eckstein had previously pled guilty).
- John Beer, a private investigator who was hired by consulting firm KPMG's forensic unit to look into allegations of accounting manipulations, said he found a document in Drabinsky's briefcase that described \$21 million of expenses that were omitted from one year's financial statements and "rolled" to the next year.
- Gary Gill, another investigator for KPMG, also testified that he saw an internal company document that contained information about financial manipulations.
- Chris Craib, Livent's accounting controller, testified that he had prepared the document and had given it to Drabinsky and Gottlieb, and that he had attended a meeting where accounting manipulations were openly discussed.
- Another accounting employee said he was amazed to learn of a plan to reclassify \$10 million of expenses as fixed assets.
- Chief financial officer Maria Messina (who had formerly worked at KPMG), said she didn't tell her former colleagues about the fraud because she wanted to try to cope with it in-house (she finally exposed the fraud after new investors had taken over managing the company).

Former controller Grant Malcolm testified that he spent all of his time recording fraudulent manipulations to the company's books. He said he routinely deleted expenses for shows, or moved them to future periods, or transferred them to different shows. He said he prepared a memo for Drabinsky that summarized all the improperly transferred production costs. He also said that two advertising agencies helped with the fraud by moving their billings from an earlier year to a later year. That allowed profit to be higher in the earlier year.

Drabinsky and Gottlieb's defence attorneys repeatedly attacked the credibility of the witnesses and argued that accounting staff had circumvented the accounting controls that Drabinsky had put in place. The defence presented no witnesses and Drabinsky and Gottlieb did not testify.

In 2009, Drabinsky and Gottlieb were found guilty of fraud and forgery. Drabinsky was sentenced to seven years in jail and Gottlieb to six years. In a related case, the Institute of Chartered Accountants of Ontario found three senior Deloitte & Touche LLP auditors guilty of making errors during an audit of Livent's financial statements. The three were fined \$100 000 each.

Drabinsky and Gottlieb are not the only executives who have been convicted of wrongdoing in the recent past. In 2005, Bernie Ebbers, the CEO of WorldCom, was found guilty of nine charges of securities fraud and filing false documents. He was sentenced to 25 years in prison. In 2006, Ken Lay, the CEO of Enron, was convicted of conspiracy and securities fraud, but 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, a former stockbroker and investment adviser, pled guilty to swindling investors in a \$50 billion fraud. He is likely to spend the rest of his life in prison.

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. Differences of opinion can therefore arise as to what is ethical or unethical. For example, many people who would never think of taking a candy bar from a grocery store routinely take home pens and pads of paper from their offices. Other people who view themselves as law-abiding citizens see nothing wrong with using radar detectors to avoid speeding tickets. In each of these situations, people will choose different sides of the issue and argue that

their actions are ethical. Most Canadians would probably agree that if you see someone drop a \$20 bill in a store, it would be ethical to return it to the owner. But what 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, would it be ethical to just keep it? In these more ambiguous situations, each person may have a different standard of ethics. The boxed insert entitled "Ethics in the YouTube Age" describes another common ethical issue.

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

ETHICAL BEHAVIOUR Behaviour that conforms to individual beliefs and social norms about what is right and good.

UNETHICAL BEHAVIOUR Behaviour that individual beliefs and social norms define as wrong and bad.

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

E-BUSINESS AND SOCIAL MEDIA SOLUTIONS

Ethics in the YouTube Age

Technology has changed our lives in positive ways, but it has also made questionable practices easier to commit. YouTube, for example, is a great source of entertainment. Many of you spend considerable time watching comedians, actors, and consumer-generated videos. YouTube makes an effort to remove unauthorized copyright material, and even warns users that their account may be closed if they ignore such laws. YouTube also offers an authorized music library that enables content providers to insert music selections without fear of legal action. However, there is plenty of material on YouTube that does not meet legal requirements.

Most people consider themselves to be ethical individuals. Students are often very critical of unethical corporations that act solely to satisfy their own needs. However, ethical issues cannot simply be looked at from a convenient lens. Do you consider yourself to be an ethical person? What would you tell a friend if you saw him or her shoplifting? What would you do if you caught a co-worker stealing from your company? You may have strong, clear opinions on those issues, but how many songs and movies have you illegally downloaded?

Gary Fung, the founder of the Vancouver-based internet torrent site isoHunt, believes that illegal downloading is a legitimate right. He turned this belief into a successful business with more than 100 million users who can download TV shows, films, etc. Fung has

clearly benefited from the work of others, without paying for the content, and yet he generates millions in advertising revenue for his website. Mr. Fung is now facing a US\$150 million fine for copyright infringement and damages. His success caught the attention of the Motion Picture Association of America (MPAA), which has also pursued similar sites, for instance, TorrentSpy (US\$111 million fine). isoHunt may ultimately share the fate of Napster.

A popular argument that is often used to justify illegal downloading activity is that there are many wealthy artists that earn millions of dollars. However, for every successful star there are thousands of struggling musicians, actors, and artists trying to earn a living. They are not overnight successes. Perhaps your favourite song would have never been written if that artist was not able to make a basic living (from royalties) until that one big hit. Sites like isoHunt are far more likely to have an impact on an aspiring artist than they are on someone like Lady Gaga or Will Smith. So where do you stand?

Critical Thinking Questions

1. Do you believe that multimillion dollar fines on isoHunt and TorrentSpy are fair?
2. Do you believe ethics are a black-and-white issue or do you subscribe to a grey zone?

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

The difference between unethical and illegal behaviour can also complicate matters. When CIBC World Markets sued six former employees after they left the company and started a new rival firm, Genuity Capital Markets, CIBC was making a claim of illegal behaviour. But the defendants argued that they had done nothing illegal, or unethical for that matter, because the employees they took with them had already decided to leave CIBC.¹ But in another case, damages were awarded to RBC Dominion Securities after one of its branch managers and his subordinates abruptly left as a group to work for a competitor.²

Because every situation has some degree of ambiguity, societies may adopt formal laws that reflect prevailing ethical standards or social norms. For example, because most people regard theft as unethical, we have laws against such behaviour. Unfortunately, applying these laws is sometimes difficult because real-world situations can often be interpreted in different ways,

and it isn't always easy to apply statutory standards to real-life behaviour. The epidemic of financial scandals in recent years shows how willing people can be to take advantage of potentially ambiguous situations.

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.”³ Suppose you needed to get an official document. You might start out determined to take all the proper bureaucratic steps to get it. However, when 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.

Individual Values and Codes We start to form ethical standards as children in response to our perceptions of the behaviour of parents and other adults. Soon, we enter school, where we're influenced by peers, and as we grow into adulthood other experiences shape our lives and contribute to our ethical beliefs and our behaviour. We also develop values and morals that contribute to ethical standards. 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 set family and friends as a priority, you'll probably adopt different standards.

Managerial Ethics

Managerial ethics are the standards of behaviour that guide individual managers in their work.⁴ 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 This category covers such matters as hiring and firing, wages and working conditions, privacy, and respect. Ethical and legal guidelines emphasize that hiring and firing decisions should be based solely on the ability to perform a job. A manager who discriminates against any ethnic minority in hiring 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 objectionable on ethical grounds (but not necessarily in some other countries).

Wages and working conditions, though regulated by law, are also areas for ethical controversy. Consider a manager who pays an employee less than the employee deserves because the manager knows that the employee can't afford to quit or risk his job by complaining. While some people will see this behaviour as unethical, others will see it as simply smart business. Other cases are more clear-cut. For example, Enron managers



Ethical scandals involving business leaders have made international headlines in recent years. Events ranging from the fall of Enron to the investment scam headed by Bernard Madoff (shown here) have undermined public confidence in business and its leaders. Madoff, for example, cost hundreds of major investment clients their entire life savings.

encouraged employees to invest their retirement funds in company stock and then, when financial problems began to surface, refused to permit them to sell the stock (even though top officials of the company were allowed to sell their stock).

Behaviour Toward the Organization Ethical issues also arise from employee behaviour toward their employer, especially in such areas as conflict of interest, confidentiality, and honesty. A **conflict of interest** occurs when an activity benefits an individual at the expense of the employer. Most companies, for example, have policies that forbid company buyers from accepting gifts from suppliers. Businesses in highly competitive industries—software and fashion apparel, for example—have safeguards against designers selling company secrets to competitors. Relatively common problems in the general area of honesty include such behaviour as stealing supplies, padding expense accounts, and using a business phone to make personal long-distance calls. Most employees are honest, but most organizations are nevertheless vigilant.

Behaviour Toward Other Economic Agents Ethics also comes into play in the relationship between the firm and its customers, competitors, stockholders, suppliers, dealers, and unions. In dealing with such agents, there is room for ethical ambiguity in just about every activity—advertising, financial disclosure, ordering and purchasing, bargaining and negotiation, and other business relationships. For example, when pharmaceutical companies are criticized

for the high prices of their drugs, they say that high prices are needed to cover the costs of research and development programs to develop new drugs. To some observers, the solution to such problems is obvious: find the right balance between reasonable pricing and *price gouging* (responding to increased demand with overly steep price increases). But like so many questions involving ethics, there are significant differences of opinion about what the proper balance is.⁵

Another area of concern is competitive espionage. In 2004, Air Canada sued WestJet for \$220 million, claiming that a WestJet executive had accessed Air Canada's confidential reservation database, which contained important competitive information that would be beneficial to WestJet.⁶ WestJet eventually admitted its actions were unethical and paid Air Canada \$5 million to cover expenses Air Canada incurred while investigating the unauthorized accessing of its website. WestJet also agreed to contribute \$10 million to children's charities.

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 okay in that case for the manager to use the information? Some people would say it's still unethical, but others might feel that since the manager didn't go looking for the information, that it's okay to use it.⁷

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 the hope of gaining a competitive edge for WestJet.

Difficulties also arise because business practices vary globally. In many countries, bribes are a normal part of doing business. German companies, for example, were formerly allowed to write off bribes as “expenses,” but in 2007—after corruption laws had been changed—several executives of Siemens AG were arrested and charged with bribing foreign officials in order to obtain business.⁸ In Canada and the U.S., bribes are seen as unethical and illegal. In 2006, the Gemological Institute of America (GIA) fired several employees after discovering that they had accepted bribes from diamond dealers. In return for the bribes, the GIA employees rated the dealers’ diamonds higher than they should have, and this allowed the dealers to sell the diamonds for a much higher price. The GIA also banned two groups of dealers from having their diamonds rated by the GIA.⁹

Assessing Ethical Behaviour

How can we determine whether a particular action or decision is ethical or unethical? A three-step model has been suggested as a way of systematically applying ethical judgments to situations that may arise during the course of business activities.

- 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. For example, if 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, that the manager also has a \$100 dinner the next night in that same city with a good friend for purely social purposes. Submitting that receipt for full reimbursement would be seen by most managers as unethical (but some might try to rationalize that it is acceptable because they are underpaid and this is a way to increase their pay).

We can assess this situation using four ethical norms:

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?

Now, let’s return to the case of the expense account. 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. Some people will argue that it is acceptable to submit the illegitimate receipt because the manager is only doing so to be reimbursed for what he or she is entitled to. Others, however, will argue that submitting the other receipt is wrong under any circumstances. Changes in the factual information about the case may make ethical issues more or less clear-cut.

Managing Ethics in Organizations

Organizations try to promote ethical behaviour and discourage unethical behaviour, but the unethical and illegal activities of both managers and employees in recent years have motivated many firms to take additional steps to encourage ethical behaviour. Many companies, for example, establish codes of conduct and develop clear ethical positions on how the firm and its employees will conduct their business.

The single most effective step a company can take is for top management to demonstrate ethical commitment by taking decisive action when problems arise. When food products made by Maple Leaf Foods were found to be contaminated with listeria, the company took quick action to manage the crisis (see Chapter 6 for more details).¹⁰ A now-classic illustration of decisive action occurred back in 1982, when Johnson & Johnson discovered that capsules of the company’s Tylenol pain reliever had been laced with cyanide. It quickly recalled all Tylenol bottles on retailers’ shelves and went public with candid information throughout the crisis.

Two of the most common approaches for formalizing ethical commitment are *adopting written codes* and *instituting ethics programs*.

Adopting Written Codes Many companies, including Johnson & Johnson, McDonald’s, Starbucks, and Dell, have adopted written codes of ethics that formally acknowledge their intent to do business in an ethical manner. Figure 3.1 shows the code of ethics adopted by Mountain Equipment Co-op.

Most codes of ethics are designed to perform one or more of four functions:

- 1 They increase public confidence in a firm or its industry.
- 2 They may help stem the tide of government regulation.
- 3 They improve internal operations by providing consistent standards of both ethical and legal conduct.

Our Purpose

To support people in achieving the benefit of wilderness-oriented recreation.

Our Vision

Mountain Equipment Co-op is an innovative, thriving co-operative that inspires excellence in products and services, passion for wilderness experiences, leadership for a just world, and action for a healthy planet.

Our Mission

Mountain Equipment Co-op provides quality products and services self-propelled wilderness-oriented recreation, such as hiking and mountaineering, at the lowest reasonable price in an informative, respectful manner. We are a member-owned co-operative striving for social and environmental leadership.

Our Values

We conduct ourselves ethically and with integrity. We show respect for others in our words and actions. We act in the spirit of community and co-operation. We respect and protect our natural environment. We strive for personal growth, continual learning, and adventure.

Our purpose is what we resolve to do.

Our vision is our picture of the future and outlines where we want to go.

Our mission tells us what business we are in, who we serve, and how. It represents the fundamental reason for MEC's existence.

Our values influence our conduct both collectively as an organization, and individually as employees, directors and members of our community. We strive to have our actions reflect these values, demonstrate personal accountability, and be publicly defensible.

Figure 3.1

Mountain Equipment Co-op's statements of purpose, vision, mission, and values make up its code of ethics.

4 They help managers respond to problems that arise as a result of unethical or illegal 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 Corp., 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.¹¹ Many Canadian and U.S. firms are also adding a position called "ethics director" or "ethics officer."

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

Instituting Ethics Programs Can business ethics be "taught," either in the workplace or in schools? While business schools have become important players in the debate about ethics education, most analysts agree that

companies must take the chief responsibility for educating employees. In fact, more and more firms are doing so. Imperial Oil, for example, conducts workshops for employees that emphasize ethical concerns. The purpose of these workshops is to help employees put Imperial's ethics statement into practice.

But many firms struggle with ethical dilemmas, particularly those that do business globally. Nike, for example, manufactures most of its products overseas in order to boost profitability. A few years ago, a scathing report investigating Nike's manufacturing partners in Asia called it just short



Figure 3.2

Core principles and organizational values.

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.

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.

of slave labour. Nike responded to the report by acknowledging its mistakes and made a commitment to improve working conditions. Nike plants in Asia, for example, no longer force employees to work on Sundays. Wages have been increased, and supervisors are forbidden to use the extreme punishments that were formerly used.¹²

Sometimes situations are so complex that it is difficult for companies to determine what is ethical. In the 1970s, Nestlé and other makers of infant formula were trying to market their products in develop-

ing countries. Problems developed because the formula sometimes was not used properly by mothers, and their babies suffered. Activists organized a boycott of Nestlé, and the United Nations began aggressively promoting breast feeding. But then the AIDS crisis developed, and it was discovered that some nursing mothers who had AIDS were transmitting the virus to their infants through their milk. Infant formula was then suggested as a possible way to avoid this problem. But suspicion of infant formula makers like Nestlé remains strong, even though they offered to donate infant formula for free.¹³

LO-2 Social Responsibility

Corporate social responsibility (CSR) refers to the way in which a business tries to balance its commitments to **organizational stakeholders**—those groups, individuals, and organizations that are directly affected by the practices of an organization and that therefore have a stake in its performance.¹⁴ Galen Weston, the executive chairman of Loblaw Cos. Ltd., says that companies that want to be successful need to embrace CSR as part of their core strategy. It can no longer simply be an “add-on.”¹⁵

There is a debate about which of these stakeholders should be given the most attention. One view, often called *managerial capitalism*, is held by Nobel laureate Milton Friedman, who says that a company's only social responsibility is to make as much money as possible for its shareholders, as long as it doesn't break any laws in doing so. Friedman also says that a free society is undermined when company managers accept any social responsibility other than making as much money as possible.¹⁶

An opposing view is that companies must be responsible to various stakeholders, including *customers, employees, investors, suppliers, and the local communities*



Starbucks helps local farmers gain access to credit, works to develop and maintain sustainability of the coffee crop, and is building farmer support centres in Costa Rica, Ethiopia, and Rwanda to provide local farmers with agricultural and technical education and support.

in which they do business. Some of these stakeholders may be particularly important to the organization, so it will pay particular attention to their needs and expectations. Whatever the relative emphasis on the various stakeholders, this view says that businesses should not just pursue profit to the exclusion of all else.

Contemporary Social Consciousness

Views about social responsibility have changed dramatically over time, generally in the direction of higher social responsibility expectations of business. The late nineteenth century was characterized by the entrepreneurial spirit and the *laissez-faire* philosophy. During that era of labour strife and predatory business practices, both individual citizens and the government became concerned about uncontrolled business activity. This concern was translated into laws regulating basic business practices.

During the Great Depression of the 1930s, many people blamed the failure of businesses and banks and the widespread loss of jobs on a general climate of business greed and lack of restraint. Out of the economic turmoil emerged new laws that described an increased expectation that business should protect and enhance the general welfare of society.

During the social unrest of the 1960s and 1970s, business was often characterized as a negative social force. Eventually, increased activism prompted additional government regulation in a variety of areas. Health warnings, for example, were placed on cigarette packages, and stricter environmental protection laws were enacted.

Social consciousness and views toward social responsibility continue to evolve in the twenty-first century. The financial excesses that caused the recession of

2008–2009 resulted in new laws governing business conduct. As well, an increased awareness of the global economy and heightened campaigning on the part of environmentalists and other activists have combined to make many businesses more sensitive to various social responsibilities, not simply the pursuit of profit. For example, retailers such as Sears have policies against selling handguns and other weapons, and toy retailer Toys “R” Us refuses to sell toy guns that look too realistic. Electrolux, a Swedish appliance maker, has developed a line of water-efficient washing machines and a solar-powered lawnmower. The boxed insert entitled “This Is One Green (and Socially Responsible) Company!” describes the efforts that have been made by Mountain Equipment Co-op to protect the environment and the workers who make the products it sells.

LO-3 Areas of Social Responsibility

POLLUTION

The introduction of harmful substances into the environment.

When defining their sense of social responsibility, most firms consider four areas: the environment, customers, employees, and investors.

Responsibility Toward the Environment

Controlling **pollution**—the release of harmful substances into the environment—is a significant challenge for contemporary business. Although noise pollution is attracting increased concern, air pollution, water pollution, and

THE GREENING OF BUSINESS

This Is One Green (and Socially Responsible) Company!

Mountain Equipment Co-op (MEC) was started in 1971 by four students from the University of British Columbia who were committed to protecting the environment. Unlike most corporations, MEC does not try to maximize the wealth of its members; rather, it seeks a balance between financial and social/environmental goals. MEC directs 1 percent of its sales to charity and to running energy-efficient stores. Jantzi Research Inc. rates MEC as the top company in Canada’s retail sector for sustainability practices.

Some of MEC’s revenue each year is allocated to sustainable community development projects, typically through donations for charitable or educational purposes. MEC’s own registered charity—The MEC Endowment Fund for the Environment—was created in 1993. Each year, 0.4 percent of the previous year’s sales are donated to the MEC fund. That translates into an average of \$750 000 per year in contributions to environmental conservation and wilderness protection projects, research, and education.

Practising social and environmental responsibility means more than simply giving money to environmental causes and organizations. It also means being conscious of other aspects of social responsibility. For example, MEC audits its suppliers to make sure that they have programs in place to ensure that waste is disposed of in an environmentally responsible manner, do not use child labour, do not harass their workers or discriminate against them, provide workers with a healthy and safe work environment, and pay their workers fairly.

In its retail outlets, MEC practises what it preaches. The design of its buildings, and the material and construction methods used, are consistent with care for the environment. Energy efficiency, pollution control, and recycling potential are all important considerations in MEC buildings. Innovations found in MEC’s green buildings include the use of geothermal energy heat pumps in Montreal, a demonstration straw-bale wall in Ottawa, and composting toilets in Winnipeg. When it was built, MEC’s Winnipeg store was only the second retail building in Canada that met the national C2000 Green Building Standard (the first one was MEC’s Ottawa store). (For information on other green buildings in Canada, see The Greening of Business box in Chapter 7.)

Critical Thinking Questions

1. Which of the two major views about business—“managerial capitalism” or the “variety of stakeholders” idea—would most likely be held by MEC’s shareholders? Why?
2. What are the arguments for and against “managerial capitalism” and the “variety of stakeholders” idea?
3. Consider the following statement: “*Businesses should not give money to charity because (a) business executives do not have any training that would help them decide which charities to give money to, (b) businesses are biased in their decisions about which charities to give money to, and (c) business managers don’t have any right to give away shareholders’ money.*” Do you agree or disagree with the statement? Explain your reasoning.

AIR POLLUTION

Pollution that occurs when a combination of factors lowers air quality.

GLOBAL WARMING

An increase in the earth's average temperature.

land pollution are the subjects of most anti-pollution efforts by business and governments.¹⁷

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 does smoke and other chemicals emitted by manufacturing plants. The rapid industrialization of developing countries has led to increased concerns about air pollution. In China, for example, 100 coal-fired power plants are being built each year, and each plant uses 1.4 million tons 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.¹⁸ 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.¹⁹ The meetings in Copenhagen in 2009 on this issue ended without an agreement.

The United Nations is promoting 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.²⁰ But critics of the plan 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 CO₂ 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.²¹

Figure 3.3 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. The three projections—lowest, middle, highest—were developed by the Intergovernmental Panel on Climate Change, which calculated likely changes in the atmosphere during this century if no efforts were made to reduce *greenhouse emissions*—waste industrial gases that trap heat in the atmosphere. The criteria for estimating changes are population, economic growth, energy supplies, and technologies. The less pressure exerted by these conditions, the less the increase in CO₂ levels. Energy supplies are measured in *exajoules*—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 2.0 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 3.0 and 3.5 percent, and energy supplies would require as much as 18 400 exajoules of conventional oil.

There is currently some debate about whether **global warming**—an increase in the earth's average temperature—is occurring because of increased air pollution. Most everyone agrees that global warming is a fact, but some experts argue that it is simply part of the earth's natural cycle. There is general agreement that global warming will benefit some people and hurt others. In normally icy Greenland, for example, the warming climate has resulted in a longer growing season for grain and vegetables, and farmers are planning to start raising cattle because of the increased forage available in the summertime. In



The U.S.-based environmental group Nature Conservancy has recently teamed up with Indonesian logging company Sumalindo Lestari Jaya to help local villagers log a forest in a remote area of Indonesia. Why? The group believes that by working together with the company, it can better enforce sustainable practices.

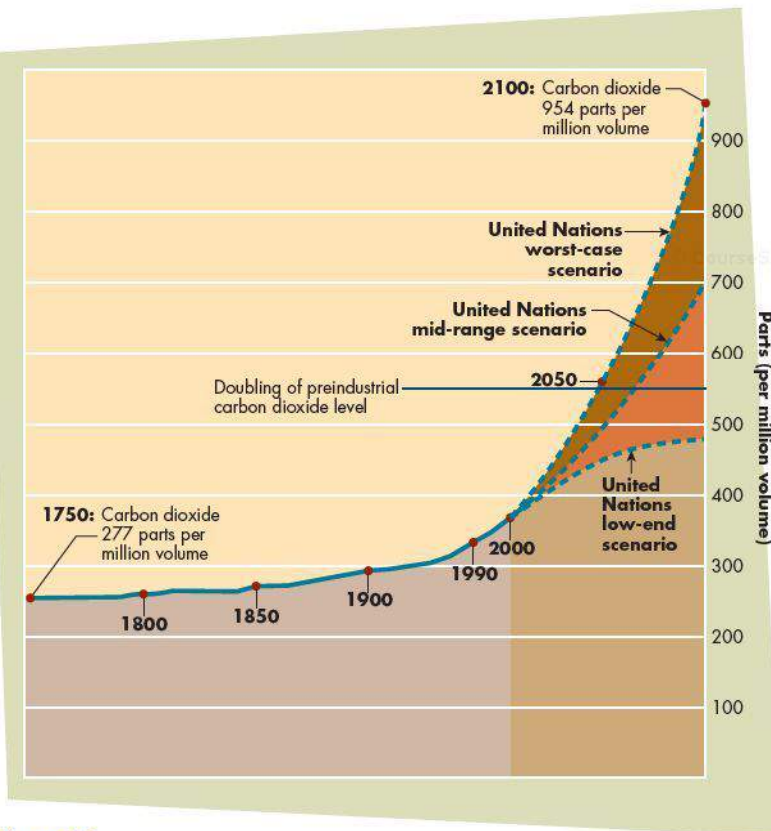


Figure 3.3
CO₂ emissions, past and future.

the Peruvian Andes, farmers did not traditionally cultivate crops above the 14 000-foot level because of the cold, but they are now planting large potato fields above 15 000 feet. But the same process that is warming Greenland and the high Andes is melting the earth's glaciers, and the water released may eventually raise sea levels to the point that many coastal cities around the world would be flooded. Even in Greenland there is a downside to global warming: the traditional lifestyle of Inuit hunters is being disrupted by the thinning ice.²²

In difficult economic times, like those that developed in 2008–2009, 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.²³

Some people think that wind power would be a good way to generate electricity while reducing air pollution. Canada is becoming a world leader in this form of power, and approximately \$18 billion will be invested

TOXIC WASTE

Pollution resulting from the emission of chemical and/or radioactive by-products of various manufacturing processes into the air, water, or land.

in wind power by 2015.²⁴ It is possible that 5 percent of Canada's energy needs will be supplied by wind power by 2015. However, experts note that while wind power is less polluting than coal- or gas-fired electricity generation, it is more expensive and less reliable.

Water Pollution For many years, businesses and municipalities simply dumped their waste into rivers, streams, and lakes with little regard for the effects. Thanks to new legislation and increased awareness on the part of businesses, water quality is improving in many areas. Millar Western Pulp Ltd. built Canada's first

zero-discharge pulp mill at Meadow Lake, Saskatchewan. There is no discharge pipe to the river, no dioxin-forming chlorine, and next to no residue. Dow Chemical built a plant at Fort Saskatchewan that will not dump any pollutants into the nearby river.²⁵ But water pollution is still a problem in many areas, and occasionally a catastrophic accident occurs that pollutes large volumes of water. The BP oil spill in the Gulf of Mexico in 2010 was one such example.

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.²⁶

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. A whole

RECYCLING

The reconversion of waste materials into useful products.

BIOMASS Plant and animal waste used to produce energy.

CONSUMERISM

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

new industry—**recycling**—has developed as part of increased consciousness about land pollution. 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.²⁷

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.²⁸ 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.²⁹

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 popular because they provide an efficient method for stacking and moving large quantities of smaller items. Pallets of merchandise can be easily and efficiently moved from factories to trucks to retail stores. Pallets are very recyclable, but since the cost of new ones is so low, many companies just toss used ones aside and get new ones. Many landfills refuse to take pallets, and others assess surcharges for recycling them. 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.³⁰

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.³¹ At the annual meetings of Barrick Gold and Goldcorp Inc., protestors from several foreign countries alleged that the companies had acted in a socially irresponsible way. The mining companies responded that they had a major commitment to social responsibility, and they have recently aired videos showing how they helped Chilean earthquake victims, and how they are rehabilitating land at former mine sites.³²

Multinational firms have also been publicly criticized. For example, Nestlé has received negative publicity on YouTube, 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.³³

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 meat made by Maple Leaf Foods that was



Of all roadway accidents, 25 percent are distraction-related, and the biggest distractions for motorists are handheld gadgets like cellphones and pagers. 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 Ford contrives for a virtual road trip. If they're on a cellphone, they'll miss about 14 percent. Teenagers miss a scary 54 percent of the events.

contaminated with listeria. Sales dropped by nearly 50 percent once this became public.³⁴ The government of China has become concerned that negative publicity about faulty toys and contaminated pet food and tooth-paste 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.³⁵

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’re 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 as it investigated collusion in the U.S. market for packaged ice. One of Arctic’s employees, who claimed he was fired for refusing to take part in a conspiracy to divide up markets, went to the U.S. government and helped it in its investigation. The investigation is still under way.³⁶ The Canadian Competition Bureau also launched an investigation after hearing allegations from a confidential informant that Mars, Hershey, Nestlé, and Cadbury had teamed up in a candy price-fixing scheme.³⁷ A law firm in Toronto is organizing a class-action lawsuit against the major chocolate companies, alleging a conspiracy to fix prices.³⁸ Also

in 2008, Ultramar, Les Petroles Therrien Inc., and Petro-T pleaded guilty to price fixing in the retail gasoline market. Ultramar was fined \$1.85 million, and the other two companies were both fined \$179 000. Those who were convicted were allowed to serve their jail sentences in their communities.³⁹

COLLUSION An illegal agreement among companies in an industry to “fix” prices for their products.

In 2010, new laws came into effect that are 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 Competition 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. But unless judges are willing to actually sentence convicted felons to serve real jail time, these changes may not have much effect.⁴⁰

Sometimes firms come under attack for *price gouging*—responding to increased demand with steep price increases. For example, when DaimlerChrysler launched its PT Cruiser, demand for the vehicles was so strong that some dealers sold them only to customers willing to pay thousands of dollars over sticker prices. Some Ford dealers adopted a similar practice when the new Thunderbird was launched. As we saw in Chapter 1, this illustrates what can happen when there is a shortage of a product.

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 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. 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 that it did not make her skin “look 12 years younger in 28 days.”⁴¹ Advertising Standards Canada found that misleading advertisements in 2008 increased 31 percent over 2007.⁴²

Advertising of Counterfeit Brands Another ethical issue involves the advertising and sale of counterfeit brand names. Canadians tourists who visit New York often go to booths on Canal Street, which is famous for the “bar-gains” that can be had on supposedly name-brand items from Cartier, Panerai, Vacheron, Mont Blanc, and Louis Vuitton. A fake Cartier Roadster watch, for example, can be bought on Canal Street for US\$45, while a real one costs about US\$3400. Many of the items being sold are

STEALTH (UNDERCOVER) ADVERTISING

Companies paying individuals to extol the virtues of their products without disclosing that they are paid to do so.

counterfeit, although it can be very hard to tell the difference between these knockoffs and the genuine article. For example, knockoffs of Suzuki motorcycles hit the market just a few weeks after the genuine product became available. These knockoffs were sold to customers as

the real thing, but they had not been subjected to rigorous quality control like real Suzuki motorcycles are. Naturally, legitimate manufacturers of these high-end products are trying to stamp out this counterfeit trade in their products.⁴³ The boxed insert entitled “Counterfeit Products” provides more information about this issue.

Stealth (Undercover) Advertising A variation of viral marketing that we discussed in Chapter 2, **stealth advertising** 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. One of the people hired is Leanne Plummer, a student at Humber College. She says that stealth advertising is more about sharing information than it is about sales.⁴⁴ One advertising agency hired models to pose as tourists. These models asked real tourists to take their picture with a new Sony Ericsson camera cellphone. The models then talked up the advantages of the new product to the unsuspecting

MANAGING IN TURBULENT TIMES

Counterfeit Products: Who’s Accountable?

Counterfeit goods are a problem in many product lines, including perfume, luggage, handbags, pharmaceuticals, designer clothing, shoes, cigarettes, watches, sports memorabilia, and fine wines, to name just a few. One counterfeit group in New York imported watch components that cost it about 27 cents each and then sold them to wholesalers for \$12 to \$20. The wholesalers then sold them to street vendors for \$20 to \$30, and the street vendors sold them as Cartier watches for as much as \$250. That was still well below the price of a real Cartier watch (about \$1800). Wine makers are also concerned about the counterfeiting of their products because some of the top names in wine (e.g., Chateau Mouton Rothschild and Penfolds Grange) cost as much as \$3000 a bottle, and this is an incentive to counterfeiters to make a lot of easy money. Wineries are fighting counterfeiting by embedding microchips in the label that can be read with an optical scanner, and by laser-etching the wine’s name and vintage year into the bottle.

An FBI investigation in the U.S. revealed that up to 75 percent of sports memorabilia was fake, and the International Chamber of Commerce estimates that the counterfeit goods trade may be worth as much as \$500 billion annually. The trade in counterfeit goods is harmful to *companies* (which have spent a lot of time and money developing brand-name goods), to *governments* (which are denied tax revenues because most counterfeiters do not pay taxes), and *consumers* (who pay for low-quality, and possibly unsafe, goods).

Some governments are now beginning to prosecute anyone who facilitates the sale of counterfeit products. This includes landlords who own the buildings where counterfeit goods are being sold, shipping companies, credit card companies, and others in the supply chain. There is also a move in some countries to hold the consumers who buy counterfeit goods accountable. In France and Italy, for example, it is now a crime to buy counterfeit goods.

Producers of name brands are also becoming more aggressive in trying to stop counterfeiting. Tiffany & Co., the high-end jeweller, filed a lawsuit against eBay, charging that it had ignored the sale of fake Tiffany jewellery on eBay’s website. But in 2008, a U.S. federal judge ruled that Tiffany, not eBay, had the responsibility for protecting the Tiffany brand name. A court in Belgium also ruled in favour of eBay after it had been sued by L’Oréal, the cosmetics company.

Critical Thinking Questions

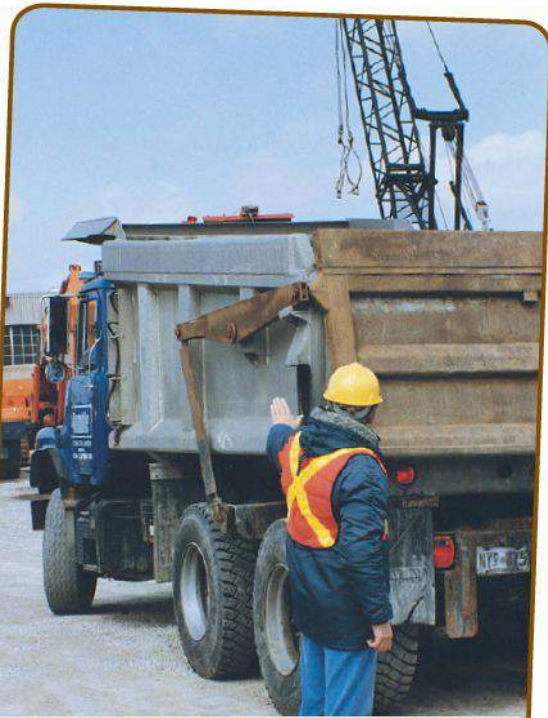
1. Do you think the benefits of counterfeit products exceed the costs, or vice-versa? Defend your answer.
2. Consider the following statement: “eBay should not be responsible for monitoring the authenticity of products that are sold through its online business. The responsibility for that lies with the companies that are worried that someone is selling a counterfeit version of their product.” Do you agree or disagree with this statement? Defend your answer.

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.⁴⁵

Morally Objectionable Advertising A final ethical issue concerns advertising that consumers consider morally objectionable. Benetton, for example, aired a series of commercials featuring inmates on death row. The ads, dubbed “We, on Death Row,” prompted such an outcry that Sears dropped the Benetton USA clothing line.⁴⁶ Other ads receiving criticism include Victoria’s Secret models in skimpy underwear, and campaigns by tobacco and alcohol companies that allegedly target young people.

Responsibility Toward Employees

In Chapter 8, we will 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.



The safety of workers is an important consideration for all organizations. The required use of hardhats is just one example of precautions that companies can take to protect workers while they are on the job.

A company that provides its employees with equal opportunities for rewards and advancement without regard to race, sex, or other irrelevant factors is meeting its social responsibilities. Firms that accept this responsibility make sure that the workplace is safe, both physically and emotionally. They would no more tolerate an abusive manager or one who sexually harasses employees than they would a gas leak.

Some progressive companies go well beyond these legal requirements, hiring and training the so-called hard-core unemployed (people with little education and training and a history of unemployment) and those who have disabilities. The Bank of Montreal, for example, sponsors a community college skills upgrading course for individuals with hearing impairments. The Royal Bank provides managers with discrimination awareness training. Rogers Communications provides individuals with mobility restrictions with telephone and customer-service job opportunities.⁴⁷

Businesses also have a responsibility to respect the privacy of their employees. While nearly everyone agrees that companies have the right to exercise some level of control over their employees, there is great controversy about exactly how much is acceptable in areas like drug testing and computer monitoring. When the 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.⁴⁸

Whistleblowers 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 perhaps the media.

At this point, the person becomes a **whistleblower**—an employee who discovers and tries to put an end to a company’s unethical, illegal, and/or socially irresponsible actions by publicizing them. For example, John Kopchinski, a sales representative at pharmaceutical giant Pfizer, blew the whistle on the company after he learned that Pfizer was promoting certain drugs for unapproved uses. He received \$5.1 million from the U.S. government for his whistleblowing efforts.⁴⁹ In Canada, Melvin Crothers discovered that a fellow WestJet employee was accessing a restricted Air Canada website in order to obtain data about Air Canada’s “load factor”

WHISTLEBLOWER

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

CHEQUE KITING

The illegal practice of writing cheques against money that has not yet arrived at the bank on which the cheque has been written, relying on that money arriving before the cheque clears.

INSIDER TRADING

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

(the proportion of seats filled) on certain flights. He had a conversation with a former WestJet president who was heading up an Air Canada discount airline, and that led to Air Canada filing a lawsuit against WestJet. Crothers resigned from WestJet four days later.⁵⁰

The Investment Industry Regulatory Organization of Canada (IIROC) opened a whistleblower hotline as a result of recent securities fraud such as Ponzi schemes in both Canada

and the U.S. Calls regarding market fraud are forwarded to four of the top people at the IIROC so that swift action can be taken.⁵¹

Responsibility Toward Investors

It may sound odd to say that a firm can be irresponsible toward investors, since investors are the owners of the company. But if the managers of a firm abuse its financial resources, the ultimate losers are the owners, since they do not receive the earnings, dividends, or capital appreciation due them. Managers can act irresponsibly in several ways.

Improper Financial Management Occasionally, organizations are guilty of financial mismanagement. 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.

Financial mismanagement can also take many other forms, including executives paying themselves outlandish salaries and bonuses, or spending huge amounts of company money for their own personal comfort. In these cases, creditors don't have much leverage and shareholders have few viable options. Trying to force a management change-over is not only difficult, it can also drive down the price of the company's stock, and this is a penalty shareholders are usually unwilling to assign themselves.

Cheque Kiting Cheque kiting 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 cheque kiting, but it is irresponsible because it involves using other peoples'

money without paying for it. There has been a decline in the reporting of cheque kiting as a problem in recent years.

Insider Trading Insider trading occurs when someone uses confidential information to gain from the purchase or sale of stock. The most famous case is that of Martha Stewart, but there are many others as well. Barry Landen of Agnico-Eagle Mines was found guilty of insider trading when he sold shares he owned before it became publicly known that the company was going to report poor results. He was sentenced to 45 days in jail and fined \$200 000.⁵² In 2009, Stan Grmovsek and Gil Cornblum admitted that they carried on a 14-year insider-trading scheme. Cornblum fed confidential information on upcoming takeover bids to Grmovsek, who then purchased stock in those companies and sold it for a profit when the price went up. Cornblum committed suicide and Grmovsek received a jail sentence.⁵³

Misrepresentation of Finances Certain behaviours regarding financial representation are also illegal. In maintaining and reporting its financial status, every corporation must conform to generally accepted accounting principles (see Chapter 11). Sometimes, however, unethical managers project profits far in excess of what they actually expect to earn. As we saw in the opening case, managers at Livent hid losses and/or expenses to boost paper profits. A few years earlier, the same sort of thing happened at Enron, where CFO Andrew Fastow had set up a complex network of partnerships that were often used to hide losses. This allowed Enron to report all the earnings from a partnership as its own while transferring all or most of the costs and losses to the partnership.⁵⁴

Implementing Social Responsibility Programs

Thus far, we have discussed corporate social responsibility (CSR) as if consensus existed on how firms 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 profits to investors, 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, argued that business firms that have a strong consciousness about ethics and CSR outperform firms that don't. After designing and applying a CSR rating system for companies, he found that companies that had the highest marks on questions of ethics and CSR also had the highest financial performance.⁵⁵

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 3.4 illustrates, the four stances that an organization can take concerning its obligations to society fall along a continuum ranging from the lowest to the highest degree of socially responsible practices.

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 that is 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 generally take this position in their marketing efforts. In Canada and the United States, they are legally required to include warnings to smokers on their products and to limit advertising to prescribed media. Domestically, they follow these rules to the letter of the law but use more aggressive marketing methods in countries that have no such rules.

OBSTRUCTIONIST STANCE
A company does as little as possible to solve social or environmental problems.

DEFENSIVE STANCE
An organization does only what is legally required and nothing more.

ACCOMMODATIVE STANCE
A company meets all of its legal and ethical requirements, and in some cases even goes beyond what is required.

PROACTIVE STANCE
An organization actively seeks opportunities to be socially responsible.

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 the **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.

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

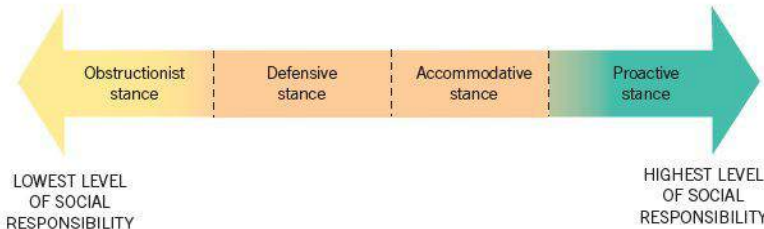


Figure 3.4
Spectrum of approaches to social responsibility

SOCIAL AUDIT

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

McDonald's has also come under fire for allegedly misleading consumers about the nutritional value of its food products. The Team Ethics exercise at the end of the chapter gives you an opportunity to think about the pros and cons of the various stances toward CSR.

Corporate Charitable Donations Donating money to different causes is one way that business firms try to show that they are socially responsible. In 2008, for example, Great-West Life, London Life, and Canada Life donated \$100 000 to the Salvation Army's Christmas campaign.⁵⁶ In 2010, McDonald's raised \$3 million for children's charities across Canada.⁵⁷ 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 \$340 000.⁵⁸ Another survey of 2200 companies that was conducted by Imagine Canada found that 91 percent gave to charities or non-profit organizations. Cash donations were provided by 76 percent of the companies, products by 51 percent, and services by 43 percent. 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.⁵⁹

Imagine Canada's Caring Company program recommends that corporations give 1 percent of pre-tax profits to charity, but only half of the corporations met that goal in 2008. A survey conducted by the Centre for Philanthropy found that the vast majority of the money given to charities

comes from individuals, not corporations. Canadians think that corporations give about 20 percent of the total, and that it should be 30 percent.⁶⁰ An Environics survey of people in 23 countries found that two-thirds of them thought that businesses are not doing enough if they simply abide by the law and provide employment.⁶¹

Businesses have also demonstrated a willingness to give money and products when disasters strike. When seven people died in Walkerton, Ontario, as a result of drinking contaminated water, companies such as Petro-Canada, Shoppers Drug Mart, Sobeys, and Zellers contributed products such as bleach and bottled water. And when tens of thousands of people died in the Asian tsunami of 2004, companies from around the world rushed aid to the stricken areas. Global *Fortune 500* firms donated \$580 million in drugs, cellphones, machinery, medical equipment, and water to the relief effort.⁶²

Some companies go beyond simply giving money or products. For example, Unilever Canada gives employees four afternoons a year for community activities.⁶³ Mars Canada sets aside one day each year for employees to volunteer. Tim Horton's Children's Foundation plans to open a camp for underprivileged children in 2013 on Sylvia Lake in Manitoba. The Foundation also has a Youth Leadership Program that is currently offered at two sites in Ontario.⁶⁴ At Telus Corp.'s annual "day of service" in 2008, employees helped out at a soup kitchen.⁶⁵ Many companies take a community-based approach; they try to determine how they can achieve value for the community (and the company) with their donations of time and money.

Managing Social Responsibility Programs

There are four steps that are required in order for an organization to become truly socially responsible. First, 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.

Second, a committee of top managers needs to develop a plan detailing the level of support that will be provided. Some companies set aside a percentage of profits for social programs. Levi Strauss, for example, has a policy of giving 2.4 percent of its pre-tax earnings to worthy causes. Managers also need to set specific priorities (for example, should the firm focus on training the hard-core unemployed or supporting the arts?).

Third, a specific executive needs to be given the authority to act as director of the firm's social agenda. This individual must monitor the program and ensure that its implementation is consistent with the policy statement and the strategic plan.

Finally, the organization needs to conduct occasional **social audits**, which are systematic analyses of how a firm is using funds earmarked for its social-responsibility goals.⁶⁶ Canadian businesses also publish sustainability



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

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 now report at least some sustainability performance information.⁶⁷ Social audits and sustainability reports together constitute **triple bottom line reporting**—measuring the social, environmental, and economic performance of a company.⁶⁸

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 2010 ranking,

General Electric (U.S.) was first, Pacific Gas and Electric (U.S.) second, and TNT NV (Netherlands) third. Nine Canadian companies made the Top 100, including Enbridge (#16), EnCana (#25), and Sun Life Financial (#50).⁶⁹

Each year the Corporate Knights organization publishes its Best Corporate Citizen list. The rankings are based on an assessment of factors such as pension fund quality, board diversity, tax dollar generation, and Aboriginal relations. The top three companies in 2009 were Hydro One, Petro-Canada, and CN.⁷⁰

TRIPLE BOTTOM LINE REPORTING

Measuring the social, environmental, and economic performance of a company.

ENTREPRENEURSHIP AND NEW VENTURES

How Green Is That Orange?

Ahh . . . the delicious taste of a fresh wild blueberry juice smoothie! What could be better to quench your thirst? The super juices offered by Arthur's Fresh, an Ontario-based beverage producer, offer much more than just thirst quenching. And, it's a good thing because consumers are looking for more than that these days—much more. Today's consumer insists on products that are both good for them and good for the environment. Arthur's Fresh is meeting the demands on both fronts. Its fruit smoothies are known for their nutritional benefits. Adding sugar is taboo and one 325 ml serving provides 25 to 50 percent of your required daily intake of fruits and vegetables. The product is sweet; pardon the pun! But, what's even sweeter about this product is the way it's produced.

In 2008, Travis Bell, president and founder of Arthur's Fresh, along with his brother Scott (the company CEO), decided to get serious about reducing the environmental footprint of their manufacturing business. Their strategy involved reducing bottle weight (which also reduced transportation costs and emissions), reducing packaging (e.g., plastic and cardboard), making responsible raw material sourcing decisions (like buying local), changing to bulk hauling transportation providers, and utilizing renewable energy for power generation. They expect to recover their \$330 000 investment by 2011, mostly from cost savings associated with transportation and packaging.

The Packaging Association of Canada thought the changes made by the brothers were commendable, and recognized them in 2009 with an award for sustainable packaging leadership. Apparently, their

customers liked the changes too, since Arthur's Fresh has experienced a 1250 percent increase in sales since 2004. Company sales were \$10 million in 2007, and in 2008 *Profit* magazine ranked Arthur's Fresh among Canada's fastest-growing companies.

The company is also involved in social responsibility initiatives that extend beyond concern for the environment. Through its Seeds of Change program, Arthur's Fresh gives at least 10 percent of its annual pre-tax profits back to the community for “kid-oriented programs.” In 2008, the company was a corporate sponsor for See-Them-Run, a campaign involving two Canadians—Erin van Wiltenburg and Reuben Jentink—who ran 4200 kilometres across the African continent to raise money for youth education programs in Africa. Arthur's Fresh is also a regular donor of juice to food banks throughout the Toronto area. Along with making healthy products, and ethical procurement decisions, the company strongly believes in enriching the lives of children.

For Travis Bell, a fifth-generation fruit farmer from Goderich, Ontario, the decision to develop his part-time business to full-time operations has taken him to greener pastures in more ways than one. So, the next time you pull your chair up to the breakfast table to enjoy a glass of cold O.J., ask yourself, “Exactly how green is that orange?”

Critical Thinking Questions

1. How has Arthur's Fresh addressed the various areas of social responsibility?
2. What further actions might the company take?

LO-5 Social Responsibility and the Small Business

Small businesses face many of the same ethical and social responsibility issues as large businesses. 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 actually 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? Is a small manufacturing firm justified in overcharging by 5 percent a customer whose purchasing agent is lax? Who will really be harmed if a small firm pads its income statement to help get a much-needed bank loan?

Can a small business afford to set CSR objectives? Should it sponsor hockey teams, make donations to the United Way, and buy light bulbs from the Lion's Club? Would you 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? The boxed insert entitled "How Green Is That Orange?" describes the social responsibility initiatives of one small business.



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Summary of Learning Objectives

- 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.
- 2. Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.** *Social responsibility* refers to the way a firm attempts to balance its commitments to organizational stakeholders. One way to understand social responsibility is to view it in terms of *stakeholders*—those groups, individuals, and organizations that are directly affected by the practices of an organization and that therefore have a stake in its performance. Until the second half of the nineteenth century, businesses often paid little attention to stakeholders. Since then, however, both public pressure and government regulation, especially as a result of the Great Depression of the 1930s and the social activism of the 1960s and 1970s, have forced businesses to consider public welfare, at least to some degree. A trend toward increased social consciousness, including a heightened sense of environmental activism, has recently emerged.
- 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

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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.

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
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. Small businesses 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 wrongdoing would most likely prompt you to be a whistleblower? What kind of wrongdoing would be least likely? Explain the difference.
3. In your opinion, which area of social responsibility is most important? Why? Are there areas other than those noted in the chapter that you consider important? 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 from a whistleblower's perspective. Given these forces, what characteristics would a law to protect whistleblowers 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 the 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. Pick a product or service that demonstrates the defensive approach to social responsibility. What has been the impact of that stance on the company that is using it? Now pick a product or service for each of the other stances (obstructionist, accommodative, and proactive) and do the same analysis. Why did these companies adopt the particular stance they did? Have the companies that sell these products had different levels of success as a result of their social responsibility stance?
9. Develop a list of the major stakeholders of your college or university. How are these stakeholders prioritized by the school's administration? Do you agree or disagree with this prioritization? Explain your reasoning.
10. Interview the owner of a local small business. Ask the owner to (1) give his or her views on the importance of social responsibility for small businesses, (2) explain the kinds of socially responsible activities the company is currently involved in, and (3) describe the factors that facilitate and inhibit socially responsible behaviour in small businesses.

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 10 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) and Texas Instruments (www.ti.com/corp/docs/csr/corpgov/ethics/) 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

Assessing the Ethics of Tradeoffs

The Situation

Managers must often make choices among options that are presented by environmental circumstances. This exercise will help you better appreciate the nature and complexity of the kinds of tradeoffs that often result.

The Dilemma

You are the CEO of a medium-sized, unionized manufacturing corporation located in a town of about 15 000 people. The nearest major city is about 200 kilometres away. With about 500 workers, you are one of the five largest employers in town. A regional recession has caused two of the other largest employers to close down (one went out of business and the other relocated to another area). A new foreign competitor has set up shop in the area, but local unemployment has still risen sharply. All in all, the regional economic climate and the new competitor are hurting your business. Your sales have dropped 20 percent this year, and you forecast another drop next year before things begin to turn around.

You face two unpleasant choices:

Choice 1: You can tell your employees that you need them to take cuts in pay and benefits. You know that because of the local unemployment rate, you can easily replace anyone who refuses. Unfortunately, you may need your employees to take another cut next year if your forecasts hold true. At the same time, you do have reason to believe that when the economy rebounds (in about two years, according to your forecasts), you can begin restoring pay cuts. Here are the advantages of this choice: You can probably (1) preserve all 500 jobs, (2) maintain your own income, (3) restore pay cuts in the future, and (4) keep the business open indefinitely. And the disadvantages: pay cuts will (1) pose economic hardships for your employees and (2) create hard feelings and undercut morale.

Choice 2: You can maintain the status quo as far as your employees are concerned, but in that case, you'll be facing two problems: (1) You'll have to cut your own salary. While you can certainly afford to live on less income,

doing so would be a blow to your personal finances. (2) If economic conditions get worse and/or last longer than forecast, you may have to close down altogether. The firm has a cash surplus, but because you'll have to dip into these funds to maintain stable wages, they'll soon run out. The advantages of this option: You can (1) avoid economic hardship for your workers and (2) maintain good employee relations. The downside: you will reduce your own standard of living and may eventually cost everyone his or her job.

Team Activity

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

- CEO of the company
- The vice-president of production
- A stockholder
- An employee who is a member of the union

Action Steps

1. Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, decide which of the three options you think is the best choice. Write down the reasons for your position.
2. Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, decide what the underlying ethical issues are in this situation. Write down the issues.
3. Gather the group together and reveal, in turn, each member's comments on the best choice of the two options. 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 disagreement?
5. From an ethical standpoint, what does your group conclude is the most appropriate action that should be taken by the company? (You may find the concepts of *utility*, *rights*, *justice*, and *caring* helpful in making your decision.)

Pollution on the High Seas

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A study by the International Council on Clean Transportation provides some interesting statistics on the global shipping industry:

- Ships transport more than 90 percent of the world's products (by volume)
- Ships release more sulphur dioxide than all of the world's cars, trucks, and buses combined
- Only six countries in the world release more greenhouse gases than ships collectively do
- Ships produce about one-quarter of the entire world's output of nitrogen-oxide emissions (the ones that cause smog)
- Back in 1990, land-based sulphur dioxide emissions in Europe were about 10 times higher than sea-based emissions, but by 2030, sea-based emissions will exceed land-based emissions

Pollution from cargo ships is unusually high because they use bunker fuel, which is a tar-like sludge that is left over from the process of refining petroleum. Bunker fuel releases more pollutants than high-grade fuel, but ship owners use it because it is cheap. And refineries are happy to sell it to shippers because it gives them an outlet for a product that would otherwise not have a market.

While increasing concerns about the global shipping industry are evident, regulating ships on the high seas has always been something of a problem. This difficulty is obvious in the work of the International Maritime Organization, which is a United Nations agency that regulates shipping. The 167 nations that make up its membership have had extreme difficulty agreeing on what to do about the problem of pollution. For example, it took the group 17 years to agree that the sulphur content in marine fuel should not exceed 4.5 percent. But the sulphur content in bunker fuel had already been reduced to half that level by the time the regulation was passed. One frustrated member of the committee said that it spent most of one meeting discussing procedural details and the punctuation in its report.

A more effective approach is for ports to set emission rules, since cargo ships obviously have to unload their cargo *somewhere*. Some ports—particularly those in the Baltic Sea region and in the state of California—have already passed laws that prohibit ships from docking unless they use cleaner-burning fuels. California, for example, does not allow ships that use low-grade fuel to sail within 24 miles of its shores. Ports in Germany, Sweden, and Canada have also set targets to reduce



air pollution from ships. But this patchwork of regulations has caused ship owners big problems, because it means that ships need to switch from low- to high-grade fuel as they sail to different locations. Because this process is complicated and dangerous, the International Association of Independent Tanker Owners and the Hong Kong Shipowners Association both think the UN should simply require ships to stop using bunker fuel.

The problem of pollution is not restricted to ships that carry *merchandise*; there is also a problem with ships that carry *people*. More than eight million passengers take an ocean voyage each year, cruising many areas of the world's oceans in search of pristine beaches and clear tropical waters. The tourists and the giant ships that carry them are usually welcomed for the revenues that they bring, but these ships also bring pollution.

A modern cruise ship generates a lot of waste—on a typical day, a ship will produce seven tons of solid garbage, 30 000 gallons of sewage, 7000 gallons of bilge water containing oil, and 225 000 gallons of “grey” water from sinks and laundries. Multiply these numbers by more than 167 ships worldwide, cruising 50 weeks per year, and the scope of the environmental damage is staggering.

Environmental groups see the top pollution-related problem as the death of marine life, including extinction. Foreign animals bring parasites and diseases, and in some cases, replace native species entirely. Bacteria that are harmless to human beings can kill corals that provide food and habitat for many species. Oil and toxic chemicals are deadly to wildlife even in minute quantities. Turtles swallow plastic bags, thinking they are jellyfish, and starve, while seals and birds drown after becoming entangled in the plastic rings that hold beverage cans.

Here again, lack of regulation is the biggest obstacle to solving the problem. Each country's laws and enforcement policies vary considerably, and even when laws are strict, enforcement may be limited. Cruise lines should be very concerned about clean seas for their own economic well-being, but this is often not the case. Intentional illegal dumping may actually be growing in scope. Over the last decade, for instance, as enforcement has tightened, 10 cruise lines have collectively paid US\$48.5 million in fines related to illegal dumping. In the largest settlement to date, Royal Caribbean paid US\$27 million for making illegal alterations to facilities, falsifying records, lying to the U.S. Coast Guard, and deliberately destroying evidence.

Critics are speaking out against the cruise lines' profiteering from an environment that they are destroying, but they note that the companies won't stop as long as the profits continue. Technology exists to make the waste safe, but industry experts estimate that dumping

can save a firm millions of dollars annually. From that perspective, the cruise lines are making understandable decisions.

Questions for Discussion

1. What are the major legal issues in this case? What are the major ethical issues?
2. Aside from personal greed, what factors might lead a cruise line to illegally dump waste into the ocean? What factors might cause cargo ships to use low-grade fuel?
3. Are the approaches to social responsibility by the cargo and cruise lines similar or different? Explain.
4. Distinguish between ethical issues and social responsibility issues as they apply to this problem.

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