Being Ethical and Socially Responsible

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Learning Objectives

What you will be able to do once you complete this chapter:

1 Understand what is meant by *business ethics*.

2 Identify the types of ethical concerns that arise in the business world.

3 Discuss the factors that affect the level of ethical behavior in organizations.

4 Explain how ethical decision making can be encouraged.

5 Describe how our current views on the social responsibility of business have evolved.

6 Explain the two views on the social responsibility of business and understand the arguments for and against increased social responsibility.

7 Discuss the factors that led to the consumer movement and list some of its results.

8 Analyze how present employment practices are being used to counteract past abuses.

9 Describe the major types of pollution, their causes, and their cures.

10 Identify the steps a business must take to implement a program of social responsibility.

inside business

Did You Know?

Divine Chocolate, which makes premium chocolate bars, is partly owned by 45,000 Fairtrade cocoa growers in Ghana.

Divine Chocolate's Recipe for Sales and Social Responsibility

Divine Chocolate has cooked up an unusual yet highly effective recipe for sales success and social responsibility. Competing against global giants such as Nestlé and Mars, Divine Chocolate has not only made a name for itself in the world of premium chocolate but has also improved the lives of thousands of cocoa farmers throughout Ghana.

The company's roots go back to the mid-1990s, when Ghana's government began allowing local companies to buy locally produced cocoa for resale in world markets. Seeing this as an opportunity to improve profits by banding together, several hundred small producers united in a cooperative association they named Kuapa Kokoo (good cocoa growers). Soon Kuapa Kokoo was certified to supply Fairtrade cocoa, meaning the growers were meeting high standards for cocoa quality, using earth-friendly production methods, and complying with requirements for safe and healthy working conditions.

Once Kuapa Kokoo's growers had achieved Fairtrade certification, they were guaranteed above-market prices for their cocoa beans. Members voted to use the extra money for digging new wells, opening day-care facilities, and funding other projects in their villages. The group also reinvested to build the business by expanding warehousing and conducting agricultural education programs for members. As word of Kuapa Kokoo's accomplishments spread, thousands of new members joined, which in turn brought the financial and social benefits to additional villages.

By 1998, Kuapa Kokoo was ready to embark on an even more ambitious business venture. With investments from several sources—including a trading company and the socially responsible Body Shop retail chain—the group formed Day Chocolate, based in London, to manufacture and market premium Divine Chocolate bars using the growers' finest Fairtrade cocoa. Because Kuapa Kokoo was part-owner, its members received a share of the profits from each Divine Chocolate bar sold.

In 2007, the U.K. company changed its name to Divine Chocolate and secured investments to start a new business in the United States. Like its U.K. counterpart, the U.S. Divine Chocolate began selling its Fairtrade chocolate bars through specialty food stores and upscale supermarkets. Today Kuapa Kokoo's 45,000 members produce 10 percent of Ghana's cocoa exports, and the profits from sales of Divine Chocolate are making a real difference to members in more than 1,200 villages.[1]

O bviously, organizations like Divine Chocolate want to be recognized as responsible corporate citizens. Such companies recognize the need to harmonize their operations with environmental demands and other vital social concerns. Not all firms, however, have taken steps to encourage a consideration of social responsibility and ethics in their decisions and day-to-day activities. Some managers still regard such business practices as a poor investment, in which the cost is not worth the return. Other managers—indeed, most managers—view the cost of these practices as a necessary business expense, similar to wages or rent.

Most managers today, like those at Divine Chocolate, are finding ways to balance a growing agenda of socially responsible activities with the drive to generate profits. This also happens to be a good way for a company to demonstrate its values and to attract like-minded employees, customers, and stockholders. In a highly competitive business environment, an increasing number of companies are,

like Divine Chocolate, seeking to set themselves apart by developing a reputation for ethical and socially responsible behavior.

We begin this chapter by defining *business ethics* and examining ethical issues. Next, we look at the standards of behavior in organizations and how ethical behavior can be encouraged. We then turn to the topic of social responsibility. We compare and contrast two present-day models of social responsibility and present arguments for and against increasing the social responsibility of business. We then examine the major elements of the consumer movement. We discuss how social responsibility in business has affected employment practices and environmental concerns. Finally, we consider the commitment, planning, and funding that go into a firm's program of social responsibility.

Business Ethics Defined

Ethics is the study of right and wrong and of the morality of the choices individuals make. An ethical decision or action is one that is "right" according to some standard of behavior. **Business ethics** is the application of moral standards to business situations. Recent court cases involving unethical behavior have helped to make business ethics a matter of public concern. In one such case, Copley Pharmaceutical, Inc., pled guilty to federal criminal charges (and paid a $10.65 million fine) for falsifying drug manufacturers' reports to the Food and Drug Administration. In another much-publicized case, lawsuits against tobacco companies have led to $246 billion in settlements, although there has been only one class-action lawsuit filed on behalf of all smokers. The case, *Engle v. R. J. Reynolds*, could cost tobacco companies an estimated $500 billion. In yet another case, Adelphia Communications Corp., the nation's fifth-largest cable television company, agreed to pay $715 million to settle federal investigations stemming from rampant earnings manipulation by its founder John J. Rigas, and his son, Timothy J. Rigas. Prosecutors and government regulators charged that both father and son had misappropriated Adelphia funds for their own use and had failed to pay the corporation for securities they controlled. John Rigas and Timothy Rigas are serving 12 years and 17 years in prison, respectively. John Rigas applied for a presidential pardon in January 2009, but George W. Bush left office without making a decision on Rigas' request.[2]

Ethical Issues

Ethical issues often arise out of a business's relationship with investors, customers, employees, creditors, or competitors. Each of these groups has specific concerns and usually exerts pressure on the organization's managers. For example, investors want management to make sensible financial decisions that will boost sales, profits, and returns on their investments. Customers expect a firm's products to be safe, reliable, and reasonably priced. Employees demand to be treated fairly in hiring, promotion, and compensation decisions. Creditors require accounts to be paid on time and the accounting information furnished by the firm to be accurate. Competitors expect the firm's competitive practices to be fair and honest. Consider TAP Pharmaceutical Products, Inc., whose sales representatives offered every urologist in the United States a big-screen TV, computers, fax machines, and golf vacations if the doctors prescribed TAP's new prostate cancer drug Lupron. Moreover, the sales representatives sold Lupron at cut-rate prices or gratis while defrauding Medicare. Recently, the federal government won an $875 million judgment against TAP when a former TAP vice president of sales, Douglas Durand, and Dr. Joseph Gerstein blew the whistle.[3]

In late 2006, Hewlett-Packard Co.'s chairman, Patricia Dunn, and general counsel, Ann Baskins, resigned amid allegations that the company used intrusive tactics in observing the personal lives of journalists and the company's directors, thus tarnishing Hewlett-Packard's reputation for integrity. According to Congressman

ethics the study of right and wrong and of the morality of the choices individuals make

business ethics the application of moral standards to business situations

John Dingell of Michigan, "We have before us witnesses from Hewlett-Packard to discuss a plunderers' operation that would make (former president) Richard Nixon blush were he still alive." Alternatively, consider Bernard Madoff, former stockbroker, financial advisor, and chairman of the NASDAQ stock exchange. In 2009, he was convicted of securities and other frauds including a Ponzi scheme that defrauded clients of $65 billion.

Businesspeople face ethical issues every day, and some of these issues can be difficult to assess. Although some types of issues arise infrequently, others occur regularly. Let's take a closer look at several ethical issues.

Fairness and Honesty

Fairness and honesty in business are two important ethical concerns. Besides obeying all laws and regulations, businesspeople are expected to refrain from knowingly deceiving, misrepresenting, or intimidating others. The consequences of failing to do so can be expensive. Recently, for example, Keith E. Anderson and Wayne Anderson, the leaders of an international tax shelter scheme known as Anderson's Ark and Associates, were sentenced to as many as 20 years in prison. The Andersons; Richard Marks, their chief accounting officer; and Karolyn Grosnickle, the chief administrative officer, were ordered to pay more than $200 million in fines and restitution.[4] In yet another case, the accounting firm PricewaterhouseCoopers LLP agreed to pay the U.S. government $42 million to resolve allegations that it made false claims in connection with travel reimbursements it collected for several federal agencies.[5]

Deere & Company requires each employee to deal fairly with its customers, suppliers, competitors, and employees. "No employee should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice." Employees are encouraged to report possible violations of company ethics policies using a 24-hour hotline or anonymous e-mails.[6]

Personal data security breaches have become a major threat to personal privacy in the new millennium. Can businesses keep your personal data secure?

Organizational Relationships

A businessperson may be tempted to place his or her personal welfare above the welfare of others or the welfare of the organization. For example, in late 2002, former CEO of Tyco International, Ltd, Leo Dennis Kozlowski, was indicted for misappropriating $43 million in corporate funds to make philanthropic contributions in his own name, including $5 million to Seton Hall University, which named its new business-school building Kozlowski Hall. Furthermore, according to Tyco, the former CEO took $61.7 million in interest-free relocation loans without the board's permission. He allegedly used the money to finance many personal luxuries, including a $15 million yacht and a $3.9 million Renoir painting, and to throw a $2 million party for his wife's birthday. Mr. Kozlowski, currently serving up to 25 years in prison, paid $134 million in restitution to Tyco and criminal fines of $70 million. In 2009, the U.S. Supreme Court denied his petition for a judicial review.[7]

Relationships with customers and co-workers often create ethical problems. Unethical behavior in these areas includes taking credit for others' ideas or work, not meeting one's commitments in a mutual agreement, and pressuring others to behave unethically.

Meet New York Governor, David Paterson, arriving at his office on March 5, 2010. A state ethics panel accused him of seeking and accepting World Series tickets from the New York Yankees in 2009 despite a gift ban, then lying to the panel about it.

© AP Images /Mary Altaffer

Conflict of Interest

Conflict of interest results when a businessperson takes advantage of a situation for his or her own personal interest rather than for the employer's interest. Such conflict may occur when payments and gifts make their way into business deals. A wise rule to remember is that anything given to a person that might unfairly influence that person's business decision is a bribe, and all bribes are unethical.

For example, Nortel Networks Corporation does not permit its employees, officers, and directors to accept any gifts or to serve as directors or officers of any organization that might supply goods or services to Nortel Networks. However, Nortel employees may work part-time with firms that are not competitors, suppliers, or customers. At AT&T, employees are instructed to discuss with their supervisors any investments that may seem improper. Verizon Communications forbids its employees and executives from holding a "significant" financial stake in vendors, suppliers, or customers.

At Procter & Gamble Company (P&G), all employees are obligated to act at all times solely in the best interests of the company. A conflict of interest arises when an employee has a personal relationship or financial or other interest that could interfere with this obligation, or when an employee uses his or her position with the company for personal gain. P&G requires employees to disclose all potential conflicts of interest and to take prompt actions to eliminate a conflict when the company asks them to do so. Generally, it is not acceptable to receive gifts, entertainment, or other gratuities from people with whom P&G does business because doing so could imply an obligation on the part of the company and potentially pose a conflict of interest.

Communications

Business communications, especially advertising, can present ethical questions. False and misleading advertising is illegal and unethical, and it can infuriate customers. Sponsors of advertisements aimed at children must be especially careful to avoid misleading messages. Advertisers of health-related products also must take precautions to guard against deception when using such descriptive terms as *low fat*, *fat free*, and *light*. In fact, the Federal Trade Commission has issued guidelines on the use of these labels.

Factors Affecting Ethical Behavior

3

Discuss the factors that affect the level of ethical behavior in organizations.

Is it possible for an individual with strong moral values to make ethically questionable decisions in a business setting? What factors affect a person's inclination to make either ethical or unethical decisions in a business organization? Although the answers to these questions are not entirely clear, three general sets of factors do appear to influence the standards of behavior in an organization. As shown in Figure 2.1, the sets consist of individual factors, social factors, and opportunities.

| Figure 2.1 | Factors that Affect the Level of Ethical Behavior in an Organization |

LEVEL OF ETHICAL BEHAVIOR

Individual factors — Social factors — Opportunity
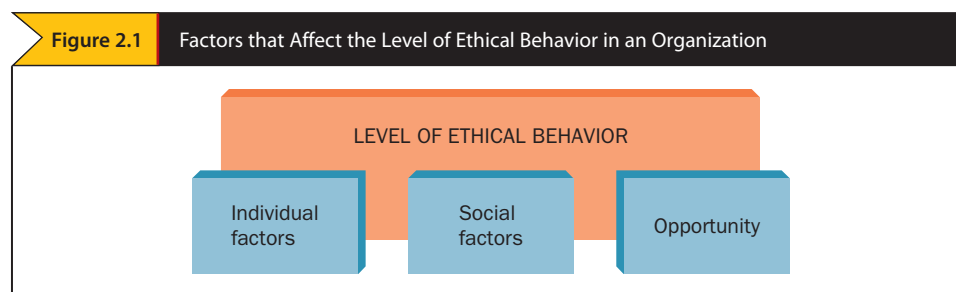
Source: Based on O. C. Ferrell and Larry Gresham, "A Contingency Framework for Understanding Ethical Decision Making in Marketing," *Journal of Marketing* (Summer 1985), 89.

SUCCESSFUL SOLUTIONS

Green or Greenwashing?

Is it ethical for a company to say its product is "green" if even the tiniest aspect is not eco-friendly? Many customers seek out goods and services that are considered green because they are made in sustainable ways, for example, or are recyclable. But is a product truly green if it is delivered by a jet that burns fossil fuel? What if one or more parts are not biodegradable or the manufacturing operation consumes lots of energy?

The Federal Trade Commission enforces advertising guidelines to ensure that firms do not make misleading environmental claims. Yet, consumers may believe a company is not doing enough to make its products green or, at the other extreme, is in some way exaggerating—*greenwashing*—its environmental claims.

To earn and retain the trust of their customers, companies must therefore be as transparent as possible about how green their products and processes really are. The outdoor clothing company Patagonia is a leader here, disclosing the carbon footprint of many of its products and labeling items that contain non-ecofriendly materials. Apple, once a Greenpeace target because some products contained environmentally questionable chemicals, is forcing suppliers to replace those materials. The company is polishing its green credentials by publicly reporting its total annual company-wide carbon footprint.

Individual Factors Affecting Ethics

Several individual factors influence the level of ethical behavior in an organization.

- *Individual knowledge of an issue.* How much an individual knows about an issue is one factor. A decision maker with a greater amount of knowledge regarding a situation may take steps to avoid ethical problems, whereas a less-informed person may take action unknowingly that leads to an ethical quagmire.
- *Personal values.* An individual's moral values and central, value-related attitudes also clearly influence his or her business behavior. Most people join organizations to accomplish personal goals.
- *Personal goals.* The types of personal goals an individual aspires to and the manner in which these goals are pursued have a significant impact on that individual's behavior in an organization. The actions of specific individuals in scandal-plagued companies, such as Adelphia, Arthur Anderson, Enron, Halliburton, Qwest, and WorldCom, often raise questions about individuals' personal character and integrity.

Social Factors Affecting Ethics

- *Cultural norms.* A person's behavior in the workplace, to some degree, is determined by cultural norms, and these social factors vary from one culture to another. For example, in some countries it is acceptable and ethical for customs agents to receive gratuities for performing ordinary, legal tasks that are a part of their jobs, whereas in other countries these practices would be viewed as unethical and perhaps illegal.
- *Co-workers.* The actions and decisions of co-workers constitute another social factor believed to shape a person's sense of business ethics. For example, if your co-workers make long-distance telephone calls on company time and at company expense, you might view that behavior as acceptable and ethical because everyone does it.
- *Significant others.* The moral values and attitudes of "significant others"— spouses, friends, and relatives, for instance—also can affect an employee's perception of what is ethical and unethical behavior in the workplace.

- *Use of the Internet*. Even the Internet presents new challenges for firms whose employees enjoy easy access to sites through convenient high-speed connections at work. An employee's behavior online can be viewed as offensive to co-workers and possibly lead to lawsuits against the firm if employees engage in unethical behavior on controversial Web sites not related to their job. Interestingly, one recent survey of employees found that most workers assume that their use of technology at work will be monitored. A large majority of employees approved of most monitoring methods such as monitoring faxes and e-mail, tracking Web use, and even recording telephone calls.

"Opportunity" as a Factor Affecting Ethics

- *Presence of opportunity*. *Opportunity* refers to the amount of freedom an organization gives an employee to behave unethically if he or she makes that choice. In some organizations, certain company policies and procedures reduce the opportunity to be unethical. For example, at some fast-food restaurants, one employee takes your order and receives your payment, and another fills the order. This procedure reduces the opportunity to be unethical because the person handling the money is not dispensing the product, and the person giving out the product is not handling the money.
- *Ethical codes*. The existence of an ethical code and the importance management places on this code are other determinants of opportunity (codes of ethics are discussed in more detail in the next section).
- *Enforcement*. The degree of enforcement of company policies, procedures, and ethical codes is a major force affecting opportunity. When violations are dealt with consistently and firmly, the opportunity to be unethical is reduced.

Do you make personal telephone calls on company time? Many individuals do. Although most employees limit personal calls to a few minutes, some make personal calls in excess of 30 minutes. Whether you use company time and equipment to make personal calls is an example of a personal ethical decision.

Now that we have considered some of the factors believed to influence the level of ethical behavior in the workplace, let us explore what can be done to encourage ethical behavior and to discourage unethical behavior.

Encouraging Ethical Behavior

Most authorities agree that there is room for improvement in business ethics. A more problematic question is: Can business be made more ethical in the real world? The majority opinion on this issue suggests that government, trade associations, and individual firms indeed can establish acceptable levels of ethical behavior.

Government's Role in Encouraging Ethics

The government can encourage ethical behavior by legislating more stringent regulations. For example, the landmark **Sarbanes-Oxley Act of 2002** provides sweeping new legal protection for those who report corporate misconduct. At the signing ceremony, President George W. Bush stated, "The act adopts tough new provisions to deter and punish corporate and accounting fraud and corruption, ensure justice for wrongdoers, and protect the interests of workers and shareholders." Among other things, the law deals with corporate responsibility, conflicts of interest, and corporate accountability. However, rules require enforcement, and the unethical businessperson frequently seems to "slip something by" without getting caught. Increased regulation may help, but it surely cannot solve the entire ethics problem.

Trade Associations' Role in Encouraging Ethics

Trade associations can and often do provide ethical guidelines for their members. These organizations, which operate within particular industries, are in an excellent position to exert pressure on members who stoop to questionable business

Sarbanes-Oxley Act of 2002 provides sweeping new legal protection for employees who report corporate misconduct

Meet Senators Sarbanes and Oxley. The Sarbanes-Oxley Act of 2002 adopted tough new provisions to deter and punish corporate and accounting fraud and corruption. Here, Senator Paul S. Sarbanes and John LaFalce congratulate each other as Senator Michael J. Oxley (middle) looks on. The legislation passed with near unanimous support.

practices. For example, recently, a pharmaceutical trade group adopted a new set of guidelines to halt the extravagant dinners and other gifts sales representatives often give to physicians. However, enforcement and authority vary from association to association. Because trade associations exist for the benefit of their members, harsh measures may be self-defeating.

Individual Companies' Role in Encouraging Ethics

Codes of ethics that companies provide to their employees are perhaps the most effective way to encourage ethical behavior. A **code of ethics** is a written guide to acceptable and ethical behavior as defined by an organization; it outlines uniform policies, standards, and punishments for violations. Because employees know what is expected of them and what will happen if they violate the rules, a code of ethics goes a long way toward encouraging ethical behavior. However, codes cannot possibly cover every situation. Companies also must create an environment in which employees recognize the importance of complying with the written code. Managers must provide direction by fostering communication, actively modeling and encouraging ethical decision making, and training employees to make ethical decisions.

During the 1980s, an increasing number of organizations created and implemented ethics codes. In a recent survey of *Fortune* 1,000 firms, 93 percent of the companies that responded reported having a formal code of ethics. Some companies are now even taking steps to strengthen their codes. For example, to strengthen its accountability, the Healthcare Financial Management Association recently revised its code to designate contact persons who handle reports of ethics violations, to clarify how its board of directors should deal with violations of business ethics, and to guarantee a fair hearing process. S. C. Johnson & Son, makers of Pledge, Drano, Windex, and many other household products, is another firm that recognizes that it must behave in ways the public perceives as ethical; its code includes expectations for employees and its commitment to consumers, the community, and society in general. As shown in Figure 2.2, the ethics code of electronics giant Texas Instruments (TI) includes issues relating to policies and procedures; laws and regulations; relationships with customers, suppliers, and competitors; conflicts of interest; handling of proprietary information; and code enforcement.

Assigning an ethics officer who coordinates ethical conduct gives employees someone to consult if they are not sure of the right thing to do. An ethics officer meets with employees and top management to provide ethical advice, establishes and maintains an anonymous confidential service to answer questions about ethical issues, and takes action on ethics code violations.

Sometimes even employees who want to act ethically may find it difficult to do so. Unethical practices can become ingrained in an organization. Employees with high personal ethics may then take a controversial step called *whistle-blowing*. **Whistle-blowing** is informing the press or government officials about unethical practices within one's organization.

The year 2002 was labeled as the "Year of the Whistle-blower." Consider Joe Speaker, a 40-year-old acting chief financial officer (CFO) at Rite Aid Corp. in 1999. He discovered that inventories at Rite Aid had been overvalued and that millions in expenses had not been reported properly. Further digging into Rite Aid's books revealed that $541 million in earnings over the previous two years was really $1.6 billion in losses. Mr. Speaker was a main government witness

code of ethics a guide to acceptable and ethical behavior as defined by the organization

whistle-blowing informing the press or government officials about unethical practices within one's organization

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Texas Instruments encourages ethical behavior through an extensive training program and a written code of ethics and shared values.

TEXAS INSTRUMENTS CODE OF ETHICS

"Integrity is the foundation on which TI is built. There is no other characteristic more essential to a TIer's makeup. It has to be present at all levels. Integrity is expected of managers and individuals when they make commitments. They are expected to stand by their commitments to the best of their ability.

One of TI's greatest strengths is its values and ethics. We had some early leaders who set those values as the standard for how they lived their lives. And it is important that TI grew that way. It's something that we don't want to lose. At the same time, we must move more rapidly. But we don't want to confuse that with the fact that we're ethical and we're moral. We're very responsible, and we live up to what we say."

Tom Engibous, President and CEO
Texas Instruments, 1997

We Respect and Value People By:

Treating others as we want to be treated.

- Exercising the basic virtues of respect, dignity, kindness, courtesy and manners in all work relationships.
- Recognizing and avoiding behaviors that others may find offensive, including the manner in which we speak and relate to one another and the materials we bring into the workplace, both printed and electronically.
- Respecting the right and obligation of every TIer to resolve concerns relating to ethics questions in the course of our duties without retribution and retaliation.
- Giving all TIers the same opportunity to have their questions, issues and situations fairly considered while understanding that being treated fairly does not always mean that we will all be treated the same.
- Trusting one another to use sound judgment in our use of TI business and information systems.
- Understanding that even though TI has the obligation to monitor its business information systems activity, we will respect privacy by prohibiting random searches of individual TIers' communications.
- Recognizing that conduct socially and professionally acceptable in one culture and country may be viewed differently in another.

We Are Honest By:

Representing ourselves and our intentions truthfully.

- Offering full disclosure and withdrawing ourselves from discussions and decisions when our business judgment appears to be in conflict with a personal interest.
- Respecting the rights and property of others, including their intellectual property. Accepting confidential or trade secret information only after we clearly understand our obligations as defined in a nondisclosure agreement.
- Competing fairly without collusion or collaboration with competitors to divide markets, set prices, restrict production, allocate customers or otherwise restrain competition.
- Assuring that no payments or favors are offered to influence others to do something wrong.
- Keeping records that are accurate and include all payments and receipts.
- Exercising good judgment in the exchange of business courtesies, meals and entertainment by avoiding activities that could create even the appearance that our decisions could be compromised.
- Refusing to speculate in TI stock through frequent buying and selling or through other forms of speculative trading.

Source: Courtesy of Texas Instruments, http://www.ti.com/corp/docs/csr/corpgov/conduct.shtml (accessed April 5, 2010).

when former Rite Aid Corp. Chairman and CEO Martin L. Grass went on trial. Mr. Speaker is among dozens of corporate managers who have blown the whistle. Enron's Sherron S. Watkins and WorldCom's Cynthia Cooper are now well-known whistle-blowers and *Time* magazine's persons of the year 2002. According to Linda Chatman Thomsen, deputy director for enforcement at the Securities and Exchange

Commission, "Whistle-blowers give us an insider's perspective and have advanced our investigation immeasurably."

Whistle-blowing could have averted disaster and prevented needless deaths in the *Challenger* space shuttle disaster, for example. How could employees have known about life-threatening problems and let them pass? Whistle-blowing, however, can have serious repercussions for employees: Those who "blow whistles" sometimes lose their jobs. However, the Sarbanes-Oxley Act of 2002 protects whistle-blowers who report corporate misconduct. Any executive who retaliates against a whistle-blower can be held criminally liable and imprisoned for up to ten years.

Retaliations do occur, however. For example, in 2005, the U.S. Court of Appeals for the 8th Circuit unanimously upheld the right of Jane Turner, a 25-year veteran FBI agent, to obtain monetary damages and a jury trial against the FBI. The court held that Ms. Turner presented sufficient facts to justify a trial by jury based on the FBI's retaliatory transfer of Ms. Turner from her investigatory position in Minot, North Dakota, to a demeaning desk job in Minneapolis. Kris Kolesnik, executive director of the National Whistle Blower Center, said, "Jane Turner is an American hero. She refused to be silent when her co-agents committed misconduct in a child rape case. She refused to be silent when her co-agents stole property from Ground Zero. She paid the price and lost her job. The 8th Circuit Court did the right thing and insured that justice will take place in her case." In 2008, the U.S. government was ordered to pay $1 million in legal fees to Turner's lawyers. In 2010, the Obama administration was attempting to pass a law that would further protect the government whistle-blowers.[8]

When firms set up anonymous hotlines to handle ethically questionable situations, employees actually may be more likely to engage in whistle-blowing. When firms instead create an environment that educates employees and nurtures ethical behavior, fewer ethical problems arise. Ultimately, the need for whistle-blowing is greatly reduced.

It is difficult for an organization to develop ethics codes, policies, and procedures to deal with all relationships and every situation. When no company policies or procedures exist or apply, a quick test to determine if a behavior is ethical is to see if others—co-workers, customers, and suppliers—approve of it. Ethical decisions will always withstand scrutiny. Openness and communication about choices will often build trust and strengthen business relationships. Table 2.1 provides some general guidelines for making ethical decisions.

Table 2.1	Guidelines for Making Ethical Decisions
1. Listen and learn.	Recognize the problem or decision-making opportunity that confronts your company, team, or unit. Don't argue, criticize, or defend yourself—keep listening and reviewing until you are sure that you understand others.
2. Identify the ethical issues.	Examine how co-workers and consumers are affected by the situation or decision at hand. Examine how you feel about the situation, and attempt to understand the viewpoint of those involved in the decision or in the consequences of the decision.
3. Create and analyze options.	Try to put aside strong feelings such as anger or a desire for power and prestige and come up with as many alternatives as possible before developing an analysis. Ask everyone involved for ideas about which options offer the best long-term results for you and the company. Then decide which option will increase your self-respect even if, in the long run, things don't work out the way you hope.
4. Identify the best option from your point of view.	Consider it and test it against some established criteria, such as respect, understanding, caring, fairness, honesty, and openness.
5. Explain your decision and resolve any differences that arise.	This may require neutral arbitration from a trusted manager or taking "time out" to reconsider, consult, or exchange written proposals before a decision is reached.

Source: Tom Rusk with D. Patrick Miller, "Doing the Right Thing," *Sky* (Delta Airlines), August 1993, 18–22.

Social Responsibility

Social responsibility is the recognition that business activities have an impact on society and the consideration of that impact in business decision making. In the first few days after Hurricane Katrina hit New Orleans, Walmart delivered $20 million in cash (including $4 million to employees displaced by the storm), 100 truckloads of free merchandise, and food for 100,000 meals. The company also promised a job elsewhere for every one of its workers affected by the catastrophe. Obviously, social responsibility costs money. It is perhaps not so obvious—except in isolated cases—that social responsibility is also good business. Customers eventually find out which firms act responsibly and which do not. Just as easily as they can purchase a product made by a company that is socially responsible, they can choose against buying from the firm that is not.

Consider the following examples of organizations that are attempting to be socially responsible:

- Social responsibility can take many forms—including flying lessons. Through Young Eagles, underwritten by S. C. Johnson, Phillips Petroleum, Lockheed Martin, Jaguar, and other corporations, 22,000 volunteer pilots have taken a half million youngsters on free flights designed to teach flying basics and inspire excitement about flying careers. Young Eagles is just one of the growing number of education projects undertaken by businesses building solid records as good corporate citizens.

- The General Mills Foundation, created in 1954, is one of the nation's largest company-sponsored foundations. Since the General Mills Foundation was created, it has awarded more than $420 million to its communities.

  In the Twin Cities, the General Mills Foundation provides grants for youth nutrition and fitness, education, arts and culture, social services, and the United Way. Beyond financial resources, the General Mills Foundation also supports organizations with volunteers and mentors who share their expertise and talents. For example, General Mills plays a leadership role in supporting education, arts, and cultural organizations by matching employee and retiree contributions dollar for dollar. General Mills Foundation institutions matched contributions of nearly $1.9 million to eligible accredited educational and employee-supported arts and cultural organizations in 2009. In 2009, the General Mills Foundation contributed nearly $21 million in grants in its communities.[9]

- As part of Dell's commitment to the community, the Dell Foundation contributes significantly to the quality of life in communities where Dell employees live and work. The Dell Foundation supports innovative and effective programs that provide fundamental prerequisites to equip youth to learn and excel in a world driven by the digital economy. The Dell Foundation supports a wide range of programs that benefit children from newborn to 17 years of age in Dell's principal U.S. locations and welcomes proposals from non-profit organizations that address health and human services, education, and technology access for youth.

  Dell's global outreach programs include projects that bring technology to underserved communities around the world. For example, Dell Brazil launched the Digital Citizen Project in 2002 in conjunction with the State Government of Rio Grande do Sul to provide

social responsibility the recognition that business activities have an impact on society and the consideration of that impact in business decision making

Triple Canopy helping the victims of the earthquake in Haiti. These waterproof tents were donated by Triple Canopy to the GHESKIO Center in Port-au-Prince, Haiti. Here, homeless victims replace hundreds of makeshift shelters with waterproof tents.

© AP Images/PRNewsFoto/Triple Canopy, Inc.

technical education to youth from low-income brackets through the creation of technology computing schools. In 2004, Dell partnered with Weyerhaeuser to deliver computers, keyboards, monitors, printers, and mouse pads to more than 100 schools in Uruguay, where the technology is estimated to benefit more than 32,700 students. In addition, employees in Dell's Asia–Pacific Customer Center volunteered to create The Smart Village Project, a program to educate students in villages located near Penang, Malaysia. Dell is currently working with the Malaysian government to expand the program to more villages. Globally, the Michael and Susan Dell Foundation has contributed more than $250 million to improve student performance and increase access to education so that all children have the opportunity to achieve their dreams.[10]

- Improving public schools around the world continues to be IBM's top social priority. Its efforts are focused on preparing the next generation of leaders and workers. Through Reinventing Education and other strategic efforts, IBM is solving education's toughest problems with solutions that draw on advanced information technologies and the best minds IBM can apply. Its programs are paving the way for reforms in school systems around the world.

  IBM launched the World Community Grid in November 2004. It combines excess processing power from thousands of computers into a virtual supercomputer. This grid enables researchers to gather and analyze unprecedented quantities of data aimed at advancing research on genomics, diseases, and natural disasters. The first project, the Human Proteome Folding Project, assists in identifying cures for diseases such as malaria and tuberculosis and has registered 85,000 devices around the world to date.

  In 2009, IBM hosted the first-ever Smarter Planet University Jam. More than 150 IBMers and approximately 2,000 faculty, students, and administrators—from more than 200 universities and research centers worldwide—brainstormed ideas on how technology and business can build a smarter planet. The 72-hour online dialogue centered on five themes: Smart Cities, Smarter Healthcare, Smart Grid, Smart Water Management & Green Planet, and Smarter Planet Skills and Education.[11]

- General Electric Company (GE) has a long history of supporting the communities where its employees work and live through GE's unique combination of resources, equipment, and employees' and retirees' hearts and souls. Today GE's responsibility extends to communities around the world.

  GE applies its long-standing spirit of innovation and unique set of capabilities to take on tough challenges in its communities. The company devotes its efforts in philanthropy to making communities around the world stronger. For example, the GE Foundation reallocated more than $20 million in 2009 to give greater support for organizations providing basic needs, such as food, clothing, and shelter. GE's Developing Health Globally™ program is working with local communities, health workers, and government ministries in Africa, Latin America, and Asia. It does not just provide usable equipment in rural hospitals and clinics—it also backs this up with capacity building for the equipment's long-term use, maintenance, and management. Through these efforts, GE can be confident that its donations are not only making a difference, but also that they as a company can learn more about how to develop technologies that meet the demand for health care in challenging environments.[12]

- With the help of dedicated Schwab volunteers, the Charles Schwab Foundation provides programs and funding to help individuals fill the information gap. For example, Schwab MoneyWise helps adults teach—and children learn— the basics of financial literacy. Interactive tools are available at http:// schwabmoneywise.com, and local workshops cover topics such as getting kids started on a budget. In addition to these efforts, widely distributed publications and news columns by foundation President Carrie Schwab Pomerantz promote financial literacy on a wide range of topics—from saving for a child's education to bridging the health insurance gap for retirees.

The Charles Schwab Foundation matches employee gifts of $25 or more, up to $1,000 per employee during the calendar year. Recently, more than a one-third of Schwab employees participated in this program. In 2009, the Charles Schwab Foundation matched employee donations to 1,838 charitable organizations, for a combined total of $1.87 million.

More than half the employee gifts and matching funds go to education-related and health and human service charities. Over one-third of total contributions are given to community-service organizations.[13]

- Improving basic literacy skills in the United States is among the Verizon Foundation's major priorities because of its enormous impact on education, health, and economic development. Here in the United States, more than 30 million American adults have basic or below average literacy skills. Thinkfinity.org is designed to improve education and literacy achievement. This comprehensive free Web site delivers online resources to advance student achievement. Thinkfinity delivers top-quality K-12 lesson plans, student materials, interactive tools, and connections to educational Web sites. It gives teachers, instructors, and parents the tools they need to increase student performance.

  Recently, Verizon employees and retirees donated more than 608,000 hours of service and, with the Verizon Foundation, contributed more than $25 million in combined matching gift funds, making Verizon Volunteers one of the largest corporate volunteer incentive programs in the United States.

- ExxonMobil's commitment to education spans all levels of achievement. One of its corporate primary goals is to support basic education and literacy programs in the developing world. In areas of the world where basic education levels have been met, ExxonMobil supports education programs in science, technology, engineering, and mathematics.

  ExxonMobil recognizes the essential role that proficiency in math and science plays not only in the energy business but also in fostering innovation and facilitating human progress. The company encourages new generations to pursue studies and careers in fields involving mathematics and science. Toward this goal, it supports programs focused on laying the foundation for long-term educational improvements, such as the National Math and Science Initiative and the Mickelson ExxonMobil Teachers Academy.

  Recently, more than 24,900 ExxonMobil employees, retirees, and their families worldwide donated more than 690,000 volunteer hours to 5,350 charitable organizations in 30 countries through company-sponsored volunteer programs. Of the total volunteers, 14,300 participants donated more than 87,200 hours to more than 1,000 organizations in countries outside the United States. ExxonMobil employees and retirees donated $36 million through ExxonMobil's matching gift, disaster relief, and employee-giving programs. When combined with corporate donations, ExxonMobil—together with its employees and retirees—contributed $225 million to community investments around the world.[14]

- AT&T has built a tradition of supporting education, health and human services, the environment, public policy, and the arts in the communities it serves since Alexander Graham Bell founded the company over a century ago. Since 1984, AT&T has invested more than $600 million in support of education. Currently, more than half the company's contribution dollars, employee volunteer time, and community-service activities are directed toward education. Since 1911, AT&T has been a sponsor to the Telephone Pioneers of America, the world's largest industry-based volunteer organization consisting of nearly 750,000 employees and retirees from the telecommunications industry. Each year, the Pioneers volunteer millions of hours and raise millions of dollars for health and human services and the environment. In schools and neighborhoods, the Pioneers strengthen connections and build communities.

In 2009, responding to President Barack Obama's call to action for all Americans to participate in the annual national day of service, Share Our Strength, AT&T Inc., the Communications Workers of America, and the AT&T Pioneers announced two new programs in the fight against childhood hunger. The text-donation program encourages wireless phone users, including AT&T customers, to donate to Share Our Strength via their mobile phones. In addition, the groups sponsored a nationwide AT&T employee food drive. Share Our Strength, a national organization dedicated to ending childhood hunger, provides support for hundreds of hunger-relief organizations. Donations are used to help provide food for 12.4 million children at risk of hunger in America.[15]

- At Merck & Co., Inc., the Patient Assistance Program makes the company's medicines available to low-income Americans and their families at no cost. When patients do not have health insurance or a prescription drug plan and are unable to afford the Merck medicines their doctors prescribe, they can work with their physicians to contact the Merck Patient Assistance Program. For more than 50 years, Merck has provided its medicines completely free of charge to people in need through this program. Patients can get information through http://www.merck.com; by calling a toll-free number, 1-800-727-5400; or from their physician's office. For eligible patients, the medicines are shipped directly to their home or the prescribing physician's office. Each applicant may receive up to one year of medicines, and patients may reapply to the program if their need continues.

    Established in 1957, the Merck Company Foundation has contributed more than $560 million to develop and initiate programs that help improve the health and well-being of people around the world. According to Richard T. Clark, chairman, president, and CEO, "Merck established the Foundation more than 50 years ago because we knew that along with corporate success comes social responsibility."

    Education programs often link social responsibility with corporate self-interest. For example, Bayer and Merck, two major pharmaceuticals firms, promote science education as a way to enlarge the pool of future employees. Students who visit the Bayer Science Forum in Elkhart, Indiana, work alongside scientists conducting a variety of experiments. Workshops created by the Merck Institute for Science Education show teachers how to put scientific principles into action through hands-on experiments.

These are just a few illustrations from the long list of companies, big and small, that attempt to behave in socially responsible ways. In general, people are more likely to want to work for and buy from such organizations.

5

Describe how our current views on the social responsibility of business have evolved.

The Evolution of Social Responsibility in Business

Business is far from perfect in many respects, but its record of social responsibility today is much better than that in past decades. In fact, present demands for social responsibility have their roots in outraged reactions to the abusive business practices of the early 1900s.

Historical Evolution of Business Social Responsibility

During the first quarter of the 20th century, businesses were free to operate pretty much as they chose. Government protection of workers and consumers was minimal. As a result, people either accepted what business had to offer or they did without. Working conditions often were deplorable by today's standards. The average workweek in most industries exceeded 60 hours, no minimum-wage law existed, and employee benefits were almost nonexistent. Work areas were crowded and unsafe, and industrial accidents were the rule rather than the exception. To improve working conditions, employees organized and joined labor unions. During the early 1900s, however, businesses—with the help of government—were able to use court

orders, brute force, and even the few existing antitrust laws to defeat union attempts to improve working conditions.

During this period, consumers generally were subject to the doctrine of **caveat emptor**, a Latin phrase meaning "let the buyer beware." In other words, "what you see is what you get," and if it is not what you expected, too bad. Although victims of unscrupulous business practices could take legal action, going to court was very expensive, and consumers rarely won their cases. Moreover, no consumer groups or government agencies existed to publicize their consumers' grievances or to hold sellers accountable for their actions.

Before the 1930s, most people believed that competition and the action of the marketplace would, in time, correct abuses. Government, therefore, became involved in day-to-day business activities only in cases of obvious abuse of the free-market system. Six of the more important business-related federal laws passed between 1887 and 1914 are described in Table 2.2. As you can see, these laws were aimed more at encouraging competition than at correcting abuses, although two of them did deal with the purity of food and drug products.

Breaking away from fossil fuels. Today's consumers are more open to transportation alternatives, such as the electric car, because they are concerned about the negative impact of gasoline-run vehicles.

The collapse of the stock market on October 29, 1929, triggered the Great Depression and years of dire economic problems for the United States. Factory production fell by almost half, and up to 25 percent of the nation's workforce was unemployed. Before long, public pressure mounted for the government to "do something" about the economy and about worsening social conditions.

Soon after Franklin D. Roosevelt became president in 1933, he instituted programs to restore the economy and improve social conditions. The government passed laws to correct what many viewed as the monopolistic abuses of big business, and provided various social services for individuals. These massive federal programs became the foundation for increased government involvement in the dealings between business and society.

As government involvement has increased, so has everyone's awareness of the social responsibility of business. Today's business owners are concerned about the return on their investment, but at the same time most of them demand ethical behavior from employees. In addition, employees demand better working conditions, and consumers want safe, reliable products. Various advocacy groups echo

Table 2.2	Early Government Regulations that Affected American Business
Six of the important business-related federal laws passed between 1887 and 1914 were aimed more at encouraging competition than at correcting abuses.	
Government Regulation	**Major Provisions**
Interstate Commerce Act (1887)	First federal act to regulate business practices; provided regulation of railroads and shipping rates
Sherman Antitrust Act (1890)	Prevented monopolies or mergers where competition was endangered
Pure Food and Drug Act (1906)	Established limited supervision of interstate sales of food and drugs
Meat Inspection Act (1906)	Provided for limited supervision of interstate sales of meat and meat products
Federal Trade Commission Act (1914)	Created the Federal Trade Commission to investigate illegal trade practices
Clayton Antitrust Act (1914)	Eliminated many forms of price discrimination that gave large businesses a competitive advantage over smaller firms

caveat emptor a Latin phrase meaning "let the buyer beware"

these concerns and also call for careful consideration of Earth's delicate ecological balance. Therefore, managers must operate in a complex business environment—one in which they are just as responsible for their managerial actions as for their actions as individual citizens. Interestingly, today's high-tech and Internet-based firms fare relatively well when it comes to environmental issues, worker conditions, the representation of minorities and women in upper management, animal testing, and charitable donations.

6

Explain the two views on the social responsibility of business and understand the arguments for and against increased social responsibility.

Two Views of Social Responsibility

Government regulation and public awareness are *external* forces that have increased the social responsibility of business. However, business decisions are made within the firm—there, social responsibility begins with the attitude of management. Two contrasting philosophies, or models, define the range of management attitudes toward social responsibility.

The Economic Model

According to the traditional concept of business, a firm exists to produce quality goods and services, earn a reasonable profit, and provide jobs. In line with this concept, the **economic model of social responsibility** holds that society will benefit most when business is left alone to produce and market profitable products that society needs. The economic model has its origins in the 18th century, when businesses were owned primarily by entrepreneurs or owner-managers. Competition was vigorous among small firms, and short-run profits and survival were the primary concerns.

To the manager who adopts this traditional attitude, social responsibility is someone else's job. After all, stockholders invest in a corporation to earn a return on their investment, not because the firm is socially responsible, and the firm is legally obligated to act in the economic interest of its stockholders. Moreover, profitable firms pay federal, state, and local taxes that are used to meet the needs of society. Thus, managers who concentrate on profit believe that they fulfill their social responsibility indirectly through the taxes paid by their firms. As a result, social responsibility becomes the problem of the government, various environmental groups, charitable foundations, and similar organizations.

The Socioeconomic Model

In contrast, some managers believe that they have a responsibility not only to stockholders but also to customers, employees, suppliers, and the general public. This broader view is referred to as the **socioeconomic model of social responsibility**, which places emphasis not only on profits but also on the impact of business decisions on society.

Recently, increasing numbers of managers and firms have adopted the socioeconomic model, and they have done so for at least three reasons. First, business is dominated by the corporate form of ownership, and the corporation is a creation of society. If a corporation does not perform as a good citizen, society can and will demand changes. Second, many firms have begun to take pride in their social responsibility records, among them Starbucks Coffee, Hewlett-Packard, Colgate-Palmolive, and Coca-Cola. Each of these companies is a winner of a Corporate Conscience Award in the areas of environmental concern, responsiveness to employees, equal opportunity, and community involvement. Of course, many other corporations are much more socially responsible today than they were ten years ago. Third, many businesspeople believe that it is in their best interest to take the initiative in this area. The alternative may be legal action brought against the firm by some special-interest group; in such a situation, the firm may lose control of its activities.

economic model of social responsibility the view that society will benefit most when business is left alone to produce and market profitable products that society needs

socioeconomic model of social responsibility the concept that business should emphasize not only profits but also the impact of its decisions on society

The Pros and Cons of Social Responsibility

Business owners, managers, customers, and government officials have debated the pros and cons of the economic and socioeconomic models for years. Each side seems to have four major arguments to reinforce its viewpoint.

Arguments for Increased Social Responsibility

Proponents of the socioeconomic model maintain that a business must do more than simply seek profits. To support their position, they offer the following arguments:

1. Because business is a part of our society, it cannot ignore social issues.
2. Business has the technical, financial, and managerial resources needed to tackle today's complex social issues.
3. By helping resolve social issues, business can create a more stable environment for long-term profitability.
4. Socially responsible decision making by firms can prevent increased government intervention, which would force businesses to do what they fail to do voluntarily.

These arguments are based on the assumption that a business has a responsibility not only to its stockholders but also to its customers, employees, suppliers, and the general public.

Arguments Against Increased Social Responsibility

Opponents of the socioeconomic model argue that business should do what it does best: earn a profit by manufacturing and marketing products that people want. Those who support this position argue as follows:

1. Business managers are responsible primarily to stockholders, so management must be concerned with providing a return on owners' investments.
2. Corporate time, money, and talent should be used to maximize profits, not to solve society's problems.
3. Social problems affect society in general, so individual businesses should not be expected to solve these problems.
4. Social issues are the responsibility of government officials who are elected for that purpose and who are accountable to the voters for their decisions.

These arguments obviously are based on the assumption that the primary objective of business is to earn profits and that government and social institutions should deal with social problems.

Table 2.3 compares the economic and socioeconomic viewpoints in terms of business emphasis. Today, few firms are either purely economic or purely socioeconomic in outlook; most have chosen some middle ground between the two extremes. However, our society generally seems to want—and even to expect—some degree of social responsibility from business. Thus, within this middle ground, businesses are leaning toward the socioeconomic view. In the next several sections, we look at some results of this movement in four specific areas: consumerism, employment practices, concern for the environment, and implementation of social responsibility programs.

Sustaining the Planet

Sustainability

What are major companies and non-profit groups doing to preserve the environment? Hundreds of organizations, including AT&T, Burt's Bees, General Mills, Hitachi America, Microsoft, PepsiCo, Union Bank, Vivendi, and Yahoo!, post the latest news about their sustainability initiatives and accomplishments on Corporate Social Responsibility Newswire. Take a look: http://www.csrwire.com/.

Table 2.3	A Comparison of the Economic and Socioeconomic Models of Social Responsibility as Implemented in Business		
Economic Model Primary Emphasis		**Socioeconomic Model Primary Emphasis**	
1. Production		1. Quality of life	
2. Exploitation of natural resources		2. Conservation of natural resources	
3. Internal, market-based decisions	Middle ground	3. Market-based decisions, with some community controls	
4. Economic return (profit)		4. Balance of economic return and social return	
5. Firm's or manager's interest		5. Firm's and community's interests	
6. Minor role for government		6. Active government	

Source: Adapted from Keith Davis, William C. Frederick, and Robert L. Blomstron, *Business and Society: Concepts and Policy Issues* (New York: McGraw-Hill, 1980), 9. Used by permission of McGraw-Hill Book Company.

Consumerism

Consumerism consists of all activities undertaken to protect the rights of consumers. The fundamental issues pursued by the consumer movement fall into three categories: environmental protection, product performance and safety, and information disclosure. Although consumerism has been with us to some extent since the early 19th century, the consumer movement became stronger in the 1960s. It was then that President John F. Kennedy declared that the consumer was entitled to a new "Bill of Rights."

The Six Basic Rights of Consumers

President Kennedy's Consumer Bill of Rights asserted that consumers have a right to safety, to be informed, to choose, and to be heard. Two additional rights added since 1975 are the right to consumer education and the right to courteous service. These six rights are the basis of much of the consumer-oriented legislation passed during the last 45 years. These rights also provide an effective outline of the objectives and accomplishments of the consumer movement.

The Right to Safety The consumers' right to safety means that the products they purchase must be safe for their intended use, must include thorough and explicit directions for proper use, and must be tested by the manufacturer to ensure product quality and reliability. There are several reasons why American business firms must be concerned about product safety.

Corrective Actions Can Be Expensive. Federal agencies, such as the Food and Drug Administration and the Consumer Product Safety Commission, have the power to force businesses that make or sell defective products to take corrective actions. Such actions include offering refunds, recalling defective products, issuing public warnings, and reimbursing consumers—all of which can be expensive.

Increasing Number of Lawsuits. Business firms also should be aware that consumers and the government have been winning an increasing number of product-liability lawsuits against sellers of defective products. Moreover, the amount of the awards in these suits has been increasing steadily. Fearing the outcome of numerous lawsuits filed around the nation, tobacco giants Philip Morris and R. J. Reynolds, which for decades had denied that cigarettes
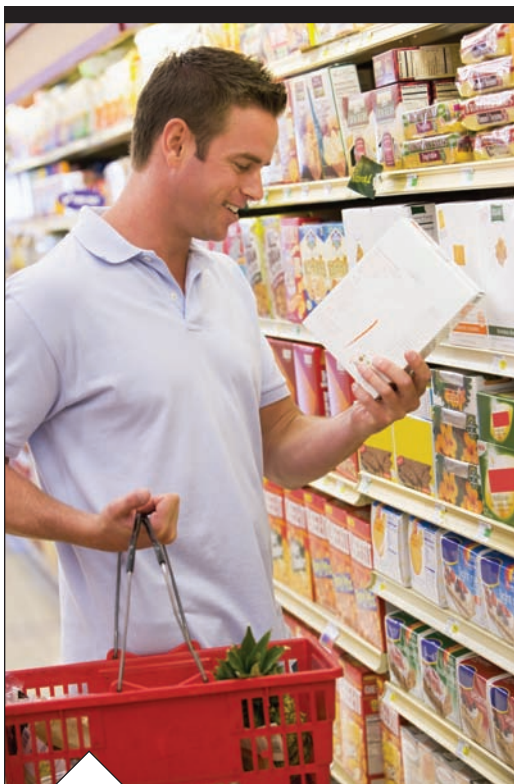
The right to be informed. The Consumer Bill of Rights asserts consumers' basic rights. The right to be informed and the right to choose means that consumers must have complete information about a product and a choice of products.

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cause illness, began negotiating in 1997 with state attorneys general, plaintiffs' lawyers, and antismoking activists. The tobacco giants proposed sweeping curbs on their sales and advertising practices and the payment of hundreds of billions of dollars in compensation.

Consumer Demand. Yet another major reason for improving product safety is consumers' demand for safe products. People simply will stop buying a product they believe is unsafe or unreliable.

The Right to Be Informed The right to be informed means that consumers must have access to complete information about a product before they buy it. Detailed information about ingredients and nutrition must be provided on food containers, information about fabrics and laundering methods must be attached to clothing, and lenders must disclose the true cost of borrowing the money they make available to customers who purchase merchandise on credit.

In addition, manufacturers must inform consumers about the potential dangers of using their products. Manufacturers that fail to provide such information can be held responsible for personal injuries suffered because of their products. For example, Maytag provides customers with a lengthy booklet that describes how they should use an automatic clothes washer. Sometimes such warnings seem excessive, but they are necessary if user injuries (and resulting lawsuits) are to be avoided.

The Right to Choose The right to choose means that consumers must have a choice of products, offered by different manufacturers and sellers, to satisfy a particular need. The government has done its part by encouraging competition through antitrust legislation. The greater the competition, the greater is the choice available to consumers.

Competition and the resulting freedom of choice provide additional benefits for customers by reducing prices. For example, when personal computers were introduced, they cost more than $5,000. Thanks to intense competition and technological advancements, personal computers today can be purchased for less than $500.

The Right to Be Heard This fourth right means that someone will listen and take appropriate action when customers complain. Actually, management began to listen to consumers after World War II, when competition between businesses that manufactured and sold consumer goods increased. One way that firms got a competitive edge was to listen to consumers and provide the products they said they wanted and needed. Today, businesses are listening even more attentively, and many larger firms have consumer relations departments that can be contacted easily via toll-free telephone numbers. Other groups listen, too. Most large cities and some states have consumer affairs offices to act on citizens' complaints.

Additional Consumer Rights In 1975, President Gerald Ford added to the Consumer Bill of Rights the right to consumer education, which entitles people to be fully informed about their rights as consumers. In 1994, President Bill Clinton added a sixth right, the right to service, which entitles consumers to convenience, courtesy, and responsiveness from manufacturers and sellers of consumer products.

Major Consumerism Forces

The major forces in consumerism are individual consumer advocates and organizations, consumer education programs, and consumer laws. Consumer advocates, such as Ralph Nader, take it on themselves to protect the rights of consumers.

They band together into consumer organizations, either independently or under government sponsorship. Some organizations, such as the National Consumers' League and the Consumer Federation of America, operate nationally, whereas others are active at state and local levels. They inform and organize other consumers, raise issues, help businesses to develop consumer-oriented programs, and pressure lawmakers to enact consumer protection laws. Some consumer advocates and organizations encourage consumers to boycott products and businesses to which they have objections. Today, the consumer movement has adopted corporate-style marketing and addresses a broad range of issues. Current campaigns include efforts (1) to curtail the use of animals for testing purposes, (2) to reduce liquor and cigarette billboard advertising in low-income, inner-city neighborhoods, and (3) to encourage recycling.

Educating consumers to make wiser purchasing decisions is perhaps one of the most far-reaching aspects of consumerism. Increasingly, consumer education is becoming a part of high school and college curricula and adult-education programs. These programs cover many topics—for instance, what major factors should be considered when buying specific products, such as insurance, real estate, automobiles, appliances and furniture, clothes, and food; the provisions of certain consumer-protection laws; and the sources of information that can help individuals become knowledgeable consumers.

Major advances in consumerism have come through federal legislation. Some laws enacted in the last 50 years to protect your rights as a consumer are listed and described in Table 2.4.

Here is the 2009 list of proposed legislation to protect consumers and investors:[16]

- Accountability and Transparency in Rating Agencies Act of 2009
- Consumer Financial Protection Agency Act of 2009
- Corporate and Financial Institution Compensation Fairness Act of 2009
- Credit Risk Retention Act of 2009
- Dissolution Authority for Large, Interconnected Financial Companies Act of 2009
- Federal Insurance Office Act of 2009
- Financial Stability Improvement Act of 2009
- Investor Protection Act of 2009
- Over-the-Counter Derivatives Markets Act of 2009
- Private Fund Investment Advisers Registration Act of 2009

Most businesspeople now realize that they ignore consumer issues only at their own peril. Managers know that improper handling of consumer complaints can result in lost sales, bad publicity, and lawsuits.

8

Analyze how present employment practices are being used to counteract past abuses.

Employment Practices

Managers who subscribe to the socioeconomic view of a business's social responsibility, together with significant government legislation enacted to protect the buying public, have broadened the rights of consumers. The last five decades have seen similar progress in affirming the rights of employees to equal treatment in the workplace.

Everyone should have the opportunity to land a job for which he or she is qualified and to be rewarded on the basis of ability and performance. This is an important issue for society, and it also makes good business sense. Yet, over the years, this opportunity has been denied to members of various minority groups. A **minority** is a racial, religious, political, national, or other group regarded as different from the larger group of which it is a part and that is often singled out for unfavorable treatment.

The federal government responded to the outcry of minority groups during the 1960s and 1970s by passing a number of laws forbidding discrimination in
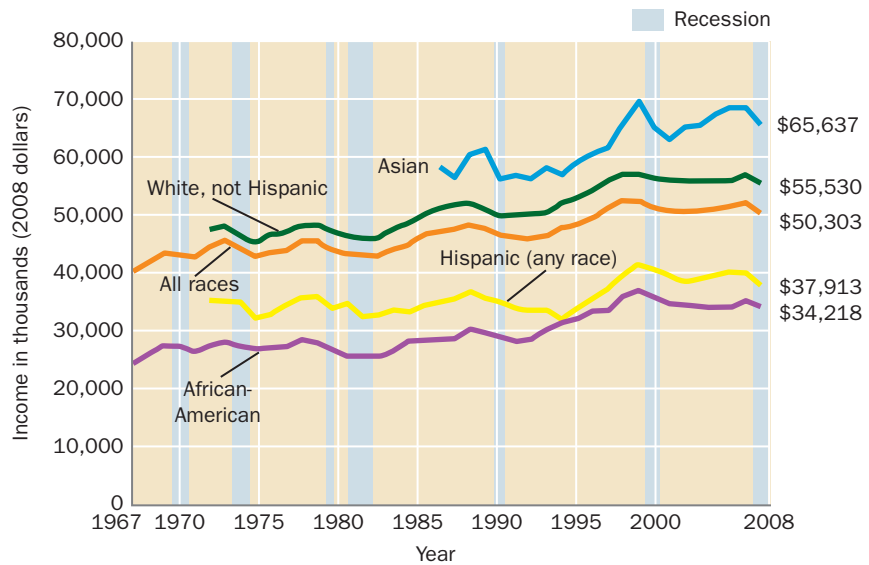
minority a racial, religious, political, national, or other group regarded as different from the larger group of which it is a part and that is often singled out for unfavorable treatment

Table 2.4	Major Federal Legislation Protecting Consumers Since 1960
Legislation	**Major Provisions**
Federal Hazardous Substances Labeling Act (1960)	Required warning labels on household chemicals if they were highly toxic
Kefauver-Harris Drug Amendments (1962)	Established testing practices for drugs and required manufacturers to label drugs with generic names in addition to trade names
Cigarette Labeling Act (1965)	Required manufacturers to place standard warning labels on all cigarette packages and advertising
Fair Packaging and Labeling Act (1966)	Called for all products sold across state lines to be labeled with net weight, ingredients, and manufacturer's name and address
Motor Vehicle Safety Act (1966)	Established standards for safer cars
Truth in Lending Act (1968)	Required lenders and credit merchants to disclose the full cost of finance charges in both dollars and annual percentage rates
Credit Card Liability Act (1970)	Limited credit-card holder's liability to $50 per card and stopped credit-card companies from issuing unsolicited cards
Fair Credit Reporting Act (1971)	Required credit bureaus to provide credit reports to consumers regarding their own credit files; also provided for correction of incorrect information
Consumer Product Safety Commission Act (1972)	Established an abbreviated procedure for registering certain generic drugs
Fair Credit Billing Act (1974)	Amended the Truth in Lending Act to enable consumers to challenge billing errors
Equal Credit Opportunity Act (1974)	Provided equal credit opportunities for males and females and for married and single individuals
Magnuson-Moss Warranty-Federal Trade Commission Act (1975)	Provided for minimum disclosure standards for written consumer-product warranties for products that cost more than $15
Amendments to the Equal Credit Opportunity Act (1976, 1994)	Prevented discrimination based on race, creed, color, religion, age, and income when granting credit
Fair Debt Collection Practices Act (1977)	Outlawed abusive collection practices by third parties
Nutrition Labeling and Education Act (1990)	Required the Food and Drug Administration to review current food labeling and packaging focusing on nutrition label content, label format, ingredient labeling, food descriptors and standards, and health messages
Telephone Consumer Protection Act (1991)	Prohibited the use of automated dialing and prerecorded-voice calling equipment to make calls or deliver messages
Consumer Credit Reporting Reform Act (1997)	Placed more responsibility for accurate credit data on credit issuers; required creditors to verify that disputed data are accurate and to notify a consumer before reinstating the data
Children's Online Privacy Protection Act (2000)	Placed parents in control over what information is collected online from their children younger than 13 years; required commercial Web site operators to maintain the confidentiality, security, and integrity of personal information collected from children
Do Not Call Implementation Act (2003)	Directed the FCC and the FTC to coordinate so that their rules are consistent regarding telemarketing call practices including the Do Not Call Registry and other lists, as well as call abandonment
Credit Card Accountability, Responsibility, and Disclosure Act (2009)	Provided the most sweeping changes in credit card protections since the Truth in Lending Act of 1968
Wall Street Reform and Consumer Protection Act of 2010	Promoted the financial stability of the United States by improving accountability and responsibility in the financial system; established a new Consumer Financial Protection Agency to regulate home mortgages, car loans, and credit cards; became Public Law on July 21, 2010

the workplace. (These laws are discussed in Chapter 9 in the context of human resources management.) Now, 46 years after passage of the first of these (the Civil Rights Act of 1964), abuses still exist. An example is the disparity in income levels for whites, blacks, Hispanics, and Asians, as illustrated in Figure 2.3. Lower incomes and higher unemployment rates also characterize Native Americans, handicapped persons, and women. Responsible managers have instituted a number of programs to counteract the results of discrimination.

Figure 2.3 Comparative Income Levels

This chart shows the median household incomes of Asian, white, Hispanic, and African-American workers in 2008.

Asian — $65,637
White, not Hispanic — $55,530
All races — $50,303
Hispanic (any race) — $37,913
African-American — $34,218

Income in thousands (2008 dollars)
Year

Affirmative Action Programs

affirmative action program a plan designed to increase the number of minority employees at all levels within an organization

An **affirmative action program** is a plan designed to increase the number of minority employees at all levels within an organization. Employers with federal contracts of more than $50,000 per year must have written affirmative action plans. The objective of such programs is to ensure that minorities are represented within the organization in approximately the same proportion as in the surrounding community. If 25 percent of the electricians in a geographic area in which a company is located are African-Americans, then approximately 25 percent of the electricians it employs also should be African-Americans. Affirmative action plans encompass all areas of human resources management: recruiting, hiring, training, promotion, and pay.

Unfortunately, affirmative action programs have been plagued by two problems. The first involves quotas. In the beginning, many firms pledged to recruit and hire a certain number of minority members by a specific date. To achieve this goal, they were forced to consider only minority applicants for job openings; if they hired nonminority workers, they would be defeating their own purpose. However, the courts have ruled that such quotas are unconstitutional even though their purpose is commendable. They are, in fact, a form of discrimination called *reverse discrimination*.

The second problem is that although most such programs have been reasonably successful, not all businesspeople are in favor of affirmative action programs. Managers not committed to these programs can "play the game" and still discriminate against

Strong opinions about affirmative action. Affirmative action programs ensure that minorities are represented within the organization in approximately the same proportion as in the surrounding community. In the Winston-Salem Police Department, of the 30 recruits in the Basic Law Enforcement Training classes, 24 are white men, two are Hispanic men, two are black women, one is a white woman, and one is an American Indian man.

©AP Images/ Winston-Salem Journal, David Rolfe

workers. To help solve this problem, Congress created (and later strengthened) the **Equal Employment Opportunity Commission (EEOC)**, a government agency with the power to investigate complaints of employment discrimination and sue firms that practice it.

The threat of legal action has persuaded some corporations to amend their hiring and promotional policies, but the discrepancy between men's and women's salaries still exists, as illustrated in Figure 2.4. For more than 50 years, women have consistently earned only about 77 cents for each dollar earned by men.

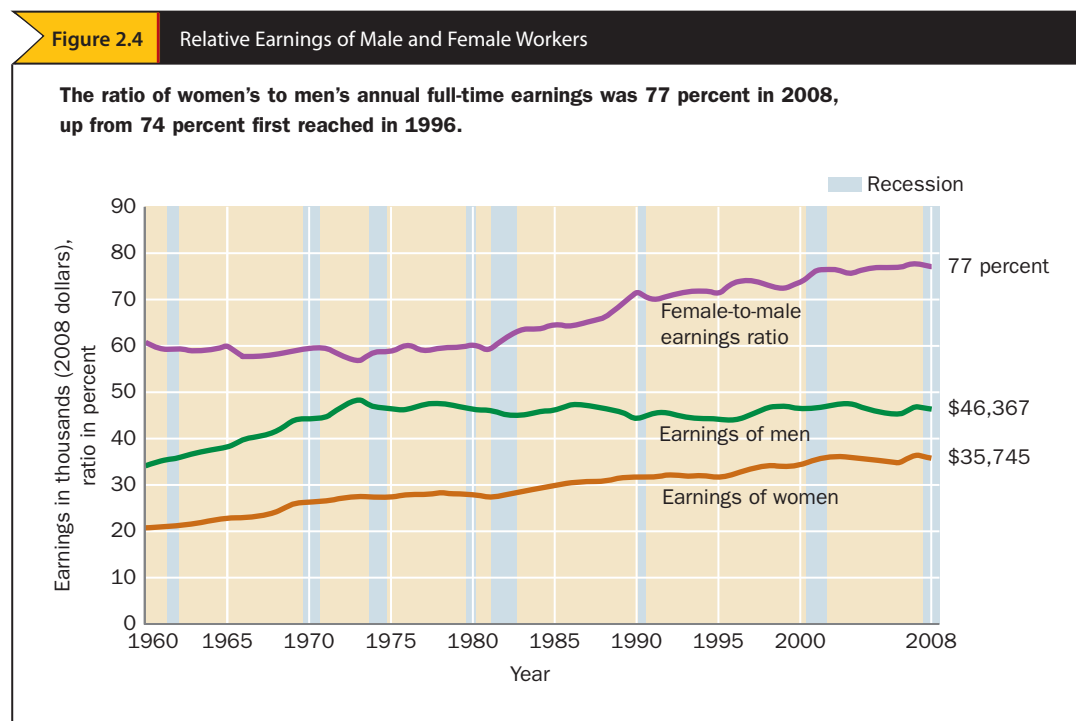## Training Programs for the Hard-Core Unemployed

For some firms, social responsibility extends far beyond placing a help-wanted advertisement in the local newspaper. These firms have assumed the task of helping the **hard-core unemployed**, workers with little education or vocational training and a long history of unemployment. For example, a few years ago, General Mills helped establish Siyeza, a frozen soul-food processing plant in North Minneapolis. Through the years, Siyeza has provided stable, high-quality full-time jobs for a permanent core of 80 unemployed or underemployed minority inner-city residents. In addition, groups of up to 100 temporary employees are called in when needed. In the past, such workers often were turned down routinely by personnel managers, even for the most menial jobs.

Obviously, such workers require training; just as obviously, this training can be expensive and time-consuming. To share the costs, business and community leaders have joined together in a number of cooperative programs. One particularly successful partnership is the **National Alliance of Business (NAB)**, a joint business–government program to train the hard-core unemployed. The alliance's 5,000 members include companies of all sizes and industries, their CEOs and senior executives, as well as educators and community leaders. NAB, founded in 1968 by President Lyndon Johnson and Henry Ford II, is a major national business organization focusing on education and workforce issues.

Equal Employment Opportunity Commission (EEOC) a government agency with the power to investigate complaints of employment discrimination and the power to sue firms that practice it

hard-core unemployed workers with little education or vocational training and a long history of unemployment

National Alliance of Business (NAB) a joint business–government program to train the hard-core unemployed

| Figure 2.4 | Relative Earnings of Male and Female Workers |

The ratio of women's to men's annual full-time earnings was 77 percent in 2008, up from 74 percent first reached in 1996.

Source: U.S. Census Bureau, Current Population Survey, 1968 to 2008 Annual Social and Economic Supplements, *Income, Poverty, and Health Insurance Coverage in the United States: 2008,* issued August 2009, U.S. Census Bureau, U.S. Department of Commerce, 11, http://www.census.gov/prod/2009pubs/p60-236.pdf (accessed April 29, 2010).

Concern for the Environment

The social consciousness of responsible business managers, the encouragement of a concerned government, and an increasing concern on the part of the public have led to a major effort to reduce environmental pollution, conserve natural resources, and reverse some of the worst effects of past negligence in this area. **Pollution** is the contamination of water, air, or land through the actions of people in an industrialized society. For several decades, environmentalists have been warning us about the dangers of industrial pollution. Unfortunately, business and government leaders either ignored the problem or were not concerned about it until pollution became a threat to life and health in America. Today, Americans expect business and government leaders to take swift action to clean up our environment—and to keep it clean.

Effects of Environmental Legislation

As in other areas of concern to our society, legislation and regulations play a crucial role in pollution control. The laws outlined in Table 2.5 reflect the scope of current environmental legislation: laws to promote clean air, clean water, and even quiet work and living environments. Of major importance was the creation of the Environmental Protection Agency (EPA), the federal agency charged with enforcing laws designed to protect the environment.

When they are aware of a pollution problem, many firms respond to it rather than wait to be cited by the EPA. Other owners and managers, however, take the position that environmental standards are too strict. (Loosely translated, this means that compliance with present standards is too expensive.) Consequently, it often

pollution the contamination of water, air, or land through the actions of people in an industrialized society

Table 2.5	Summary of Major Environmental Laws
Legislation	**Major Provisions**
National Environmental Policy Act (1970)	Established the Environmental Protection Agency (EPA) to enforce federal laws that involve the environment
Clean Air Amendment (1970)	Provided stringent automotive, aircraft, and factory emission standards
Water Quality Improvement Act (1970)	Strengthened existing water pollution regulations and provided for large monetary fines against violators
Resource Recovery Act (1970)	Enlarged the solid-waste disposal program and provided for enforcement by the EPA
Water Pollution Control Act Amendment (1972)	Established standards for cleaning navigable streams and lakes and eliminating all harmful waste disposal by 1985
Noise Control Act (1972)	Established standards for major sources of noise and required the EPA to advise the Federal Aviation Administration on standards for airplanes
Clean Air Act Amendment (1977)	Established new deadlines for cleaning up polluted areas; also required review of existing air-quality standards
Resource Conservation and Recovery Act (1984)	Amended the original 1976 act and required federal regulation of potentially dangerous solid-waste disposal
Clean Air Act Amendment (1987)	Established a national air-quality standard for ozone
Oil Pollution Act (1990)	Expanded the nation's oil-spill prevention and response activities; also established the Oil Spill Liability Trust Fund
Clean Air Act Amendments (1990)	Required that motor vehicles be equipped with onboard systems to control about 90 percent of refueling vapors
Food Quality Protection Act (1996)	Amended the Federal Insecticide, Fungicide and Rodenticide Act and the Federal Food Drug and Cosmetic Act; the requirements included a new safety standard—reasonable certainty of no harm—that must be applied to all pesticides used on foods
American Recovery and Reinvestment Act (2009)	Provided $7.22 billion to the EPA to protect and promote "green" jobs and a healthier environment

has been necessary for the EPA to take legal action to force firms to install antipollution equipment and to clean up waste storage areas.

Experience has shown that the combination of environmental legislation, voluntary compliance, and EPA action can succeed in cleaning up the environment and keeping it clean. However, much still remains to be done.

Water Pollution The Clean Water Act has been credited with greatly improving the condition of the waters in the United States. This success comes largely from the control of pollutant discharges from industrial and wastewater treatment plants. Although the quality of our nation's rivers, lakes, and streams has improved significantly in recent years, many of these surface waters remain severely polluted. Currently, one of the most serious water-quality problems results from the high level of toxic pollutants found in these waters.

Among the serious threats to people posed by water pollutants are respiratory irritation, cancer, kidney and liver damage, anemia, and heart failure. Toxic pollutants also damage fish and other forms of wildlife. In fish, they cause tumors or reproductive problems; shellfish and wildlife living in or drinking from toxin-laden waters also have suffered genetic defects. Recently, the Pollution Control Board of Kerala in India ordered Coca-Cola to close its major bottling plant. For years, villagers in the nearby areas had accused Coke of depleting local groundwater and producing other local pollution. The village council president said, "We are happy that the government is finally giving justice to the people who are affected by the plant."

One of the worst environmental disasters in 2010 was the explosion of the *Deepwater Horizon*, in which 11 people died. The British Petroleum (BP) catastrophe led to an oil spill in the Gulf of Mexico that contaminated a vast area of the United States marine environment. It caused a serious impact on wildlife, the local fishing industry, and regional tourism. British Petroleum was held liable for property damaged by the oil spill and the cleanup efforts; loss of income or earning capacity; loss of income to boat owners, hotel owners, and restaurant owners; removal and cleanup costs of property; and claims of bodily injury caused by the spill.
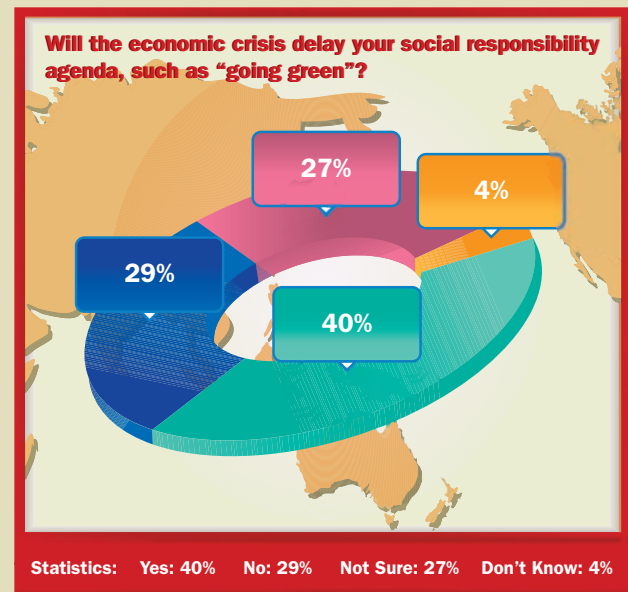
The task of water cleanup has proved to be extremely complicated and costly because of pollution runoff and toxic contamination. Yet, improved water quality is not only necessary, it is also achievable. Consider Cleveland's Cuyahoga River. A few years ago, the river was so contaminated by industrial wastes that it burst into flames one hot summer day! Now, after a sustained community cleanup effort, the river is pure enough for fish to thrive in.

Another serious issue is acid rain, which is contributing significantly to the deterioration of coastal waters, lakes, and marine life in the eastern United States. Acid rain forms when sulfur emitted by smokestacks in

SPoTLIGHT

Recession and Responsibility

Will the economic crisis delay your social responsibility agenda, such as "going green"?

29% 27% 4% 40%

Statistics: **Yes: 40%** **No: 29%** **Not Sure: 27%** **Don't Know: 4%**

Source: Booz & Co. survey of 828 chief executive officers and managers. Margin of error: 3+/− percentage points.

Corporate concern for the environment. Motorola Co-CEO Sanjay Jha helps clear brush at the Old School Forest Preserve in Libertyville, Illinois, as part of the company's fourth Annual Global Day of Services. Employees from 41 countries volunteered in their communities, with their focus on the environment.

© AP Images/PRNewsFoto/Motorola, Inc.

industrialized areas combines with moisture in the atmosphere to form acids that are spread by winds. The acids eventually fall to Earth in rain, which finds its way into streams, rivers, and lakes. The acid-rain problem has spread rapidly in recent years, and experts fear that the situation will worsen if the nation begins to burn more coal to generate electricity. To solve the problem, investigators first must determine where the sulfur is being emitted. The costs of this vital investigation and cleanup are going to be high. The human costs of having ignored the problem so long may be higher still.

Air Pollution Aviation emissions are a potentially significant and growing percentage of greenhouse gases that contribute to global warming. Aircraft emissions are significant for several reasons. First, jet aircraft are the main source of human emissions deposited directly into the upper atmosphere, where they may have a greater warming effect than if they were released at Earth's surface. Second, carbon dioxide—the primary aircraft emission—is the main focus of international concern. For example, it survives in the atmosphere for nearly 100 years and contributes to global warming, according to the Intergovernmental Panel on Climate Change. The carbon dioxide emissions from worldwide aviation roughly equal those of some industrialized countries. Third, carbon dioxide emissions combined with other gases and particles emitted by jet aircraft could have two to four times as great an effect on the atmosphere as carbon dioxide alone. Fourth, the Intergovernmental Panel recently concluded that the rise in aviation emissions owing to the growing demand for air travel would not be fully offset by reductions in emissions achieved solely through technological improvements.

Usually, two or three factors combine to form air pollution in any given location. The first factor is large amounts of carbon monoxide and hydrocarbons emitted by motor vehicles concentrated in a relatively small area. The second is the smoke and other pollutants emitted by manufacturing facilities. These two factors can be eliminated in part through pollution control devices on cars, trucks, and smokestacks.

A third factor that contributes to air pollution—one that cannot be changed—is the combination of weather and geography. The Los Angeles Basin, for example, combines just the right weather and geographic conditions for creating dense smog. Los Angeles has strict regulations regarding air pollution. Even so, Los Angeles still struggles with air pollution problems because of uncontrollable conditions.

How effective is air pollution control? The EPA estimates that the Clean Air Act and its amendments will eventually result in the removal of 56 billion pounds of pollution from the air each year, thus measurably reducing lung disease, cancer, and other serious health problems caused by air pollution. Other authorities note that we have already seen improvement in air quality. A number of cities have cleaner air today than they did 30 years ago. Even in southern California, bad air-quality days have dropped to less than 40 days a year, about 60 percent lower than that observed just a decade ago. Numerous chemical companies have recognized that they must take responsibility for operating their plants in an environmentally safe manner; some now devote considerable capital to purchasing antipollution devices. For example, 3M's pioneering Pollution Prevention Pays (3P) program, designed to find ways to avoid the generation of pollutants, marked its 30th anniversary in 2005. Since 1975, more than 5,600 employee-driven 3P projects have prevented the generation of more than 2.2 billion pounds of pollutants and produced first-year savings of nearly $1 billion.

Land Pollution Air and water quality may be improving, but land pollution is still a serious problem in many areas. The fundamental issues are (1) how to restore damaged or contaminated land at a reasonable cost and (2) how to protect unpolluted land from future damage.

The land pollution problem has been worsening over the past few years because modern technology has continued to produce increasing amounts of chemical and radioactive waste. U.S. manufacturers produce an estimated 40 to 60 million tons of contaminated oil, solvents, acids, and sludge each year. Service businesses, utility companies, hospitals, and other industries also dump vast amounts of wastes into the environment.

Individuals in the United States contribute to the waste-disposal problem, too. A shortage of landfills, owing to stricter regulations, makes garbage disposal a serious problem in some areas. Incinerators help to solve the landfill-shortage problem, but they bring with them their own problems. They reduce the amount of garbage but also leave tons of ash to be buried—ash that often has a higher concentration of toxicity than the original garbage. Other causes of land pollution include strip mining of coal, nonselective cutting of forests, and development of agricultural land for housing and industry.

To help pay the enormous costs of cleaning up land polluted with chemicals and toxic wastes, Congress created a $1.6 billion Superfund in 1980. Originally, money was to flow into the Superfund from a tax paid by 800 oil and chemical companies that produce toxic waste. The EPA was to use the money in the Superfund to finance the cleanup of hazardous waste sites across the nation. To replenish the Superfund, the EPA had two options: It could sue companies guilty of dumping chemicals at specific waste sites, or it could negotiate with guilty companies and thus completely avoid the legal system. During the 1980s, officials at the EPA came under fire because they preferred negotiated settlements. Critics referred to these settlements as "sweetheart deals" with industry. They felt that the EPA should be much more aggressive in reducing land pollution. Of course, most corporate executives believe that cleanup efficiency and quality might be improved if companies were more involved in the process. Many firms, including Delphi Automotive Systems Corporation and 3M, have modified or halted the production and sale of products that have a negative impact on the environment. For example, after tests showed that ScotchGuard does not decompose in the environment, 3M announced a voluntary end to production of the 40-year-old product, which had generated $300 million in sales.

Noise Pollution Excessive noise caused by traffic, aircraft, and machinery can do physical harm to human beings. Research has shown that people who are exposed to loud noises for long periods of time can suffer permanent hearing loss. The Noise Control Act of 1972 established noise emission standards for aircraft and airports, railroads, and interstate motor carriers. The act also provided funding for noise research at state and local levels.

Noise levels can be reduced by two methods. The source of noise pollution can be isolated as much as possible. (Thus, many metropolitan airports are located outside the cities.) Engineers can also modify machinery and equipment to reduce noise levels. If it is impossible to reduce industrial noise to acceptable levels, workers should be required to wear earplugs to guard them against permanent hearing damage.

Who Should Pay for a Clean Environment?

Governments and businesses are spending billions of dollars annually to reduce pollution—more than $45 billion to control air pollution, $33 billion to control water pollution, and $12 billion to treat hazardous wastes. To make matters worse, much of the money required to purify the environment is supposed to come from already depressed industries, such as the chemical industry. A few firms have discovered that it is cheaper to pay a fine than to install expensive equipment for pollution control.

Recycling Entrepreneurs

As Yale University undergraduates, Rich Littlehale and Bob Casey wondered what to do with their old cell phones and other electronic devices. Some were broken, but some still worked, even if the technology was outdated. The two friends realized that if they could persuade people to recycle gadgets instead of throwing them away, they would be helping the environment. The more they researched the situation, the more it seemed like a good business opportunity as well as a good way to solve a growing problem.

Casey and Littlehale named their new company TwigTek and began contacting firms that refurbish and resell used devices as well as firms that reclaim recyclable parts from unusable electronics. Then they set up collection boxes near Yale's New Haven campus as drop-off points for unwanted devices. However, volume was lower than they

had hoped, so the co-founders made two key changes. First, they set up a Web site, YouRenew.com, to make the process more convenient. Second, they began paying consumers for unwanted devices.

These two changes made all the difference. Today TwigTek has a staff of 15, buys back thousands of devices every month for recycling, and donates part of the profits to environmental groups. What about competition? Co-founder Casey observes: "Less than 10 percent of unwanted devices are recycled, so our biggest competition is the trash can."

Sources: Cara Baruzzi, "Growing 'Green' Start-up Focused on Recycling Is Poised to Expand," *New Haven Register,* December 13, 2009, http://www. nhregister.com/articles/2009/12/13/business/ doc4b22f9ae0706d548182201.txt; Cara Baruzzi, "New Haven Company Proves It Pays to Recycle," *New Haven Register,* April 14, 2009, http://www.nhregister. com/articles/2009/04/14/business/c1-_renew14.txt; "Student Electronics Recycling Entrepreneurs 'Graduate' from Start-up Status into New Space," *EDC New Haven,* November 30, 2009, http://www.prlog.org/10432966-student-electronics-recycling-entrepreneurs-graduate-from-startup-status-into-new-space.html; Alex Zurita, "The Land of Misfit Electronics," *NBC Connecticut,* June 23, 2009, http://www.nbcconnecticut.com.

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Who, then, will pay for the environmental cleanup? Many business leaders offer one answer—tax money should be used to cleanup the environment and to keep it clean. They reason that business is not the only source of pollution, so business should not be forced to absorb the entire cost of the cleanup. Environmentalists disagree. They believe that the cost of proper treatment and disposal of industrial wastes is an expense of doing business. In either case, consumers probably will pay a large part of the cost—either as taxes or in the form of higher prices for goods and services.

10

Identify the steps a business must take to implement a program of social responsibility.

Implementing a Program of Social Responsibility

A firm's decision to be socially responsible is a step in the right direction—but only the first step. The firm then must develop and implement a program to reach this goal. The program will be affected by the firm's size, financial resources, past record in the area of social responsibility, and competition. Above all, however, the program must have the firm's total commitment or it will fail.

Developing a Program of Social Responsibility

An effective program for social responsibility takes time, money, and organization. In most cases, developing and implementing such a program will require four steps: securing the commitment of top executives, planning, appointing a director, and preparing a social audit.

Commitment of Top Executives Without the support of top executives, any program will soon falter and become ineffective. For example, the Boeing Company's Ethics and Business Conduct Committee is responsible for the ethics program. The committee is appointed by the Boeing board of directors, and its members include the company chairman and CEO, the president and chief operating officer, the presidents of the operating groups, and senior vice presidents. As evidence of their commitment to social responsibility, top managers should develop a policy statement that outlines key areas of concern. This statement sets a tone of positive support and later will serve as a guide for other employees as they become involved in the program.

Planning Next, a committee of managers should be appointed to plan the program. Whatever form their plan takes, it should deal with each of the issues described in the top managers' policy statement. If necessary, outside consultants can be hired to help develop the plan.

Appointment of a Director After the social responsibility plan is established, a top-level executive should be appointed to implement the organization's plan. This individual should be charged with recommending specific policies and helping individual departments to understand and live up to the social responsibilities the firm has assumed. Depending on the size of the firm, the director may require a staff to handle the program on a day-to-day basis. For example, at the Boeing Company, the director of ethics and business conduct administers the ethics and business conduct program.

The Social Audit At specified intervals, the program director should prepare a social audit for the firm. A **social audit** is a comprehensive report of what an organization has done and is doing with regard to social issues that affect it. This document provides the information the firm needs to evaluate and revise its social responsibility program. Typical subject areas include human resources, community involvement, the quality and safety of products, business practices, and efforts to reduce pollution and improve the environment. The information included in a social audit should be as accurate and as quantitative as possible, and the audit should reveal both positive and negative aspects of the program.

Today, many companies listen to concerned individuals within and outside the company. For example, the Boeing Ethics Line listens to and acts on concerns expressed by employees and others about possible violations of company policies, laws, or regulations, such as improper or unethical business practices, as well as health, safety, and environmental issues. Employees are encouraged to communicate their concerns, as well as ask questions about ethical issues. The Ethics Line is available to all Boeing employees, including Boeing subsidiaries. It is also available to concerned individuals outside the company.

Funding the Program

We have noted that social responsibility costs money. Thus, just like any other corporate undertaking, a program to improve social responsibility must be funded. Funding can come from three sources:

1. Management can pass the cost on to consumers in the form of higher prices.
2. The corporation may be forced to absorb the cost of the program if, for example, the competitive situation does not permit a price increase. In this case, the cost is treated as a business expense, and profit is reduced.
3. The federal government may pay for all or part of the cost through tax reductions or other incentives.

social audit a comprehensive report of what an organization has done and is doing with regard to social issues that affect it

Divine Chocolate

Divine Chocolate makes more than premium chocolate—it makes a difference in the everyday lives of the thousands of cocoa farmers who are part-owners, as members of Ghana's Kuapa Kokoo cooperative. The farmers are guaranteed a high price for the Fairtrade-certified cocoa beans they sell to Divine Chocolate. They also share in the profits from sales of Divine Chocolate products and have a say in how the company is run.

Day by day, more retailers are stocking Divine Chocolate products and the company is gaining wider recognition for its top-quality chocolate and its unique background. Customers who buy the company's chocolate bars not only enjoy the rich taste, they feel good about supporting a socially responsible business that has been a force for positive change in villages throughout Ghana.

Questions

1. Does Divine Chocolate appear to be closer to the economic or the socioeconomic model of social responsibility, as shown in Table 2.3?
2. Kuapa Kokoo now owns 45 percent of the U.K. Divine Chocolate and 33 percent of the U.S. Divine Chocolate. Do you think it should own at least half of each company? Why or why not?

Sources: Leonie Nimmo and Dan Welch, "Chocolate Revolution from the World's Favourite Treat," *The Guardian (UK),* October 14, 2009, http://www.guardian.co.uk/environment/blog/oct/14/chocolate-week-fairtrade-ethical-living; Kiri Blakeley, "Entrepreneurs: Saving the World, One Chocolate Bar at a Time," *Forbes.com,* May 15, 2009, http://www.forbes.com/2009/05/14/small-business-ceo-forbes-woman-entrepreneurs-food.html; http://www.divinechocolate.com; http://www.divinechocolateusa.com.

Summary

CHAPTER REVIEW

1 Understand what is meant by *business ethics.*

Ethics is the study of right and wrong and of the morality of choices. Business ethics is the application of moral standards to business situations.

2 Identify the types of ethical concerns that arise in the business world.

Ethical issues arise often in business situations out of relationships with investors, customers, employees, creditors, or competitors. Businesspeople should make every effort to be fair, to consider the welfare of customers and others within the firm, to avoid conflicts of interest, and to communicate honestly.

3 Discuss the factors that affect the level of ethical behavior in organizations.

Individual, social, and opportunity factors all affect the level of ethical behavior in an organization. Individual factors include knowledge level, moral values and attitudes, and personal goals. Social factors include cultural norms and the actions and values of co-workers and significant others. Opportunity factors refer to the amount of leeway that exists in an organization for employees to behave unethically if they choose to do so.

4 Explain how ethical decision making can be encouraged.

Governments, trade associations, and individual firms can establish guidelines for defining ethical behavior. Governments can pass stricter regulations. Trade associations provide ethical guidelines for their members. Companies provide codes of ethics—written guides to acceptable and ethical behavior as defined by an organization—and create an atmosphere in which ethical behavior is encouraged. An ethical employee working in an unethical environment may resort to whistle-blowing to bring a questionable practice to light.

5 Describe how our current views on the social responsibility of business have evolved.

In a socially responsible business, management realizes that its activities have an impact on society and considers that impact in the decision-making process. Before the 1930s, workers, consumers, and government had very little influence on business activities; as a result, business leaders gave little thought to social responsibility. All this changed with the Great Depression. Government regulations, employee demands, and consumer awareness combined to create a demand that businesses act in socially responsible ways.

6 **Explain the two views on the social responsibility of business and understand the arguments for and against increased social responsibility.**

The basic premise of the economic model of social responsibility is that society benefits most when business is left alone to produce profitable goods and services. According to the socioeconomic model, business has as much responsibility to society as it has to its owners. Most managers adopt a viewpoint somewhere between these two extremes.

7 **Discuss the factors that led to the consumer movement and list some of its results.**

Consumerism consists of all activities undertaken to protect the rights of consumers. The consumer movement generally has demanded—and received—attention from business in the areas of product safety, product information, product choices through competition, and the resolution of complaints about products and business practices. Although concerns over consumer rights have been around to some extent since the early 19th century, the movement became more powerful in the 1960s when President John F. Kennedy initiated the Consumer Bill of Rights. The six basic rights of consumers include the right to safety, the right to be informed, the right to choose, the right to be heard, and the rights to consumer education and courteous service.

8 **Analyze how present employment practices are being used to counteract past abuses.**

Legislation and public demand have prompted some businesses to correct past abuses in employment practices—mainly with regard to minority groups. Affirmative action and training of the hard-core unemployed are two types of programs that have been used successfully.

9 **Describe the major types of pollution, their causes, and their cures.**

Industry has contributed to noise pollution and pollution of our land and water through the dumping of wastes, and to air pollution through vehicle and smokestack emissions. This contamination can be cleaned up and controlled, but the big question is: Who will pay? Present cleanup efforts are funded partly by government tax revenues, partly by business, and in the long run by consumers.

10 **Identify the steps a business must take to implement a program of social responsibility.**

A program to implement social responsibility in a business begins with total commitment by top management. The program should be planned carefully, and a capable director should be appointed to implement it. Social audits should be prepared periodically as a means of evaluating and revising the program. Programs may be funded through price increases, reduction of profit, or federal incentives.

Key Terms

You should now be able to define and give an example relevant to each of the following terms:

ethics (39)
business ethics (39)
Sarbanes-Oxley Act
  of 2002 (43)
code of ethics (44)
whistle-blowing (44)
social responsibility (47)

caveat emptor (51)
economic model of social
  responsibility (52)
socioeconomic
  model of social
  responsibility (52)
consumerism (54)

minority (56)
affirmative action
  program (58)
Equal Employment
  Opportunity Commission
  (EEOC) (59)
hard-core unemployed (59)

National Alliance of
  Business (NAB) (59)
pollution (60)
social audit (65)

Review Questions

1. Why might an individual with high ethical standards act less ethically in business than in his or her personal life?
2. How would an organizational code of ethics help to ensure ethical business behavior?
3. How and why did the American business environment change after the Great Depression?
4. What are the major differences between the economic model of social responsibility and the socioeconomic model?
5. What are the arguments for and against increasing the social responsibility of business?
6. Describe and give an example of each of the six basic rights of consumers.

7. There are more women than men in the United States. Why, then, are women considered a minority with regard to employment?
8. What is the goal of affirmative action programs? How is this goal achieved?
9. What is the primary function of the Equal Employment Opportunity Commission?
10. How do businesses contribute to each of the four forms of pollution? How can they avoid polluting the environment?
11. Our environment can be cleaned up and kept clean. Why haven't we simply done so?
12. Describe the steps involved in developing a social responsibility program within a large corporation.

Discussion Questions

1. When a company acts in an ethically questionable manner, what types of problems are caused for the organization and its customers?
2. How can an employee take an ethical stand regarding a business decision when his or her superior already has taken a different position?
3. Overall, would it be more profitable for a business to follow the economic model or the socioeconomic model of social responsibility?
4. Why should business take on the task of training the hard-core unemployed?
5. To what extent should the blame for vehicular air pollution be shared by manufacturers, consumers, and government?
6. Why is there so much government regulation involving social responsibility issues? Should there be less?

Video Case 2.1

Scholfield Honda—Going Green with Honda

Signs of green marketing can be found everywhere today: reusable shopping bags are the rule rather than the exception, organic and natural products fill grocers' shelves, and socially responsible companies are increasing their efforts to reduce pollution, conserve water and energy, and recycle waste paper, plastic, and other reusable materials.

Of course, some companies have always been ahead of the curve. Since the early 1970s, Honda has been producing the low-emissions, fuel-efficient Civic model, and the company has never strayed from its roots. Today's Honda line consists of four classes of vehicles: Good, Better, Best, and Ultimate. Its regular gas cars are Good, with about 30 mpg; hybrids are Better at about 45 mpg; and its Best solution is a natural gas-powered Civic GX, which gets about 220 miles to a tank. Honda also has Ultimate solutions in the works, such as the new Honda FCX Clarity—a hydrogen fuel cell car that uses hydrogen and oxygen to create electricity. Although the Civic GX and Clarity models are available to consumers, neither vehicle is practical for the average driver as fueling stations are scarce.

Alternative energy vehicles are making their way to the Midwest. Lee Lindquist, an alternative fuels specialist at Scholfield Honda in Wichita, Kansas, was researching alternative fuel vehicles for a local Sierra Club meeting when he learned that municipalities in New York and California used the natural gas Civic GX to address air-quality issues. Although Lee recognized that his own Wichita market was not teeming with green consumers, he knew that people needed ways to combat rising fuel prices—so he proposed the Civic GX for use at his dealership.

Lee's boss was skeptical of the idea. Although management was open to clever ways to promote the dealership, owner Roger Scholfield did not want to risk muddying the waters with a new and somewhat impractical vehicle. Nevertheless, he agreed to offer the car to his fleet and corporate customers, and in time fate offered another opportunity for Scholfield Honda to go green.

In May 2007, a devastating tornado hit the nearby town of Greensburg, Kansas, leveling the area. Once again Lee Lindquist approached his boss. This time, he proposed donating both a Honda Civic GX and a natural-gas fueling station to Greensburg as a way of helping the town rebuild. Upon careful reflection, Roger realized that Lee's idea would benefit his dealership through good publicity and higher awareness of alternative fuel vehicles. Scholfield made the Civic model and fuel station available to Greensburg residents free of charge, and the dealership has been on the green bandwagon ever since.

Although there are more cost-effective ways of advertising, Roger Scholfield notes that customers are becoming more interested in alternative fuel vehicles since he donated the Civic GX. In addition, his dealership has generated plenty of goodwill in the press and among local residents—Scholfield Honda has developed a good reputation for its commitment to the environment and the people of Greensburg, even opening a "Honda Green Zone" conference room on the premises. The room can hold several hundred people. It includes a digital projector, sound system, and kitchenette and is available free to local firms and organizations for meetings and conferences. Its chairs, tables, tiles, and flooring are all made from recycled materials.[17]

Questions

1. How would you rate Scholfield Honda's sense of social responsibility? Does the dealership meet all the criteria for a socially responsible company?
2. What is Scholfield Honda's primary ethical responsibility in situations where a proposed green initiative is cost-prohibitive or even detrimental to the company's bottom line?
3. Should the government regulate companies' claims that their products are green? Should official classifications for environmental friendliness be defined?

Case 2.2

Reed Paget was a journalist and documentary filmmaker when, in 2001, he covered the launch of the United Nations' Global Compact. Paget was deeply impressed by this environmental initiative's call to "use capitalism to change the world." What better mechanism is there for change, he thought, than business, with its wide financial and entrepreneurial resources and its risk-taking mind-set?

Although he had no business experience, Paget was determined to start a company in the United Kingdom that would be both socially responsible and environmentally friendly. When he learned that a quarter of the world's people have no access to clean water, he decided to create a bottled water company, both to alert the public to the global water crisis and to show that bottled water could be manufactured and marketed in an environmentally sustainable way. Finally, Paget determined that all his company's profits would be donated to clean-water projects.

With start-up funding from the Idyll Foundation, a team of friends, and a stack of business how-to books, Paget sat down to develop a brand name, find a bottle design, work out a manufacturing deal, and find customers. Coming up with a name that was not already trademarked was a challenge, but the team settled on "Belu" (pronounced "belloo") to evoke the color of water and the idea of beauty. A deal with an upscale designer yielded an affordable glass bottle design. After taste-test visits to more than 70 sources of water around the United Kingdom, Paget selected Wenlock Water, a supplier of natural mineral water located in the Shropshire hills. Not only was the water great; it was more ecologically friendly for a U.K. company than bottling and shipping water from springs in the mountains of France, which is what competitor Evian does.

A marketing firm helped Belu land its first customer, the Waitrose supermarket chain. With additional funding to pay for the initial run of glass bottles, Belu delivered its first order in May 2004. Soon the company put up a Web site, obtained further funding, and secured distribution through Tesco, the leading U.K. supermarket chain. Sales increased as Belu, positioned as the first bottled water that does not contribute to climate change, began to prove its appeal to consumers.

Another breakthrough came when the company found a manufacturer to produce corn-based bottles for its water.

The bottles are completely stable on store shelves but biodegrade back to soil in just eight weeks, under the right conditions of heat and humidity and with a little help from microorganisms. Although this compostable bottle is more costly than traditional plastic or glass bottles, the use of eco-friendly packaging is important to Belu and its customers.

Bottled water is a multibillion-dollar industry worldwide, with huge profit potential. Still, Belu faces intense competition from a number of multinational giants as well as from firms that serve local areas. One major rival is Nestlé, which owns such water brands as Perrier, Pellegrino, and Nestlé Pure Life™. Another is Group Danone, which owns Evian and Volvic, among other brands. Belu must also consider competition from tap water and from beverages such as soft drinks and juices, which can be substituted for bottled water.

Thanks to its positioning on the basis of social responsibility and sustainability, Belu Water™ now reaches more than 500,000 consumers each month. Through a charity called WaterAid, the company has brought clean water, wells, and hand pumps to more than 20,000 people in India and Mali, with expectations of helping at least ten times this number in the coming years. It uses clean electricity, offsets its remaining carbon emissions, and has won numerous awards, including Social Enterprise of the Year and Social Entrepreneur of the Year (in partnership with Schwab Foundation). Backed by smart marketing, Belu will keep growing sales and generating more profits to help more people in the future.[18]

For more information about this organization, go to http://www.belu.org.

Questions

1. Belu Water gives all its profits away and is the first firm to package water in corn-based bottles. Do you think its levels of eco-consciousness and social responsibility set a realistic model of environmental performance for other manufacturing companies? Why or why not?
2. Why does Belu Water produce a saleable product instead of just asking the public to donate money for clean-water projects?
3. Do you agree with Reed Paget that business is ideally suited to "change the world"? Explain your answer.

Building Skills for Career Success

❶ JOURNALING FOR SUCCESS

Discovery statement: This chapter was devoted mostly to business ethics, ethical concerns that arise in the business world, personal ethics, and social responsibility of business.

Assume that you are an accountant at ABC Corporation, where you question the company's accounting practices. What legal and managerial changes would you suggest to prevent the use of accounting tricks to manipulate corporate earnings?

Assignment

1. Assume that your manager refuses to incorporate any of your suggestions. Would you blow the whistle? Why or why not?
2. Suppose that you blow the whistle and get fired. Which law might protect your rights, and how would you proceed to protect yourself?

❷ EXPLORING THE INTERNET

Socially responsible business behavior can be as simple as donating unneeded older computers to schools, mentoring interested learners in good business practices, or supplying public speakers to talk about career opportunities. Students, as part of the public at large, perceive a great deal of information about a company, its employees, and its owners by the positive social actions taken, and perhaps even more by actions not taken. Microsoft donates millions of dollars of computers and software to educational institutions every year. Some people consider this level of corporate giving to be insufficient given the scale of the wealth of the corporation. Others believe that firms have no obligation to give back any more than they wish and that recipients should be grateful. Visit the text Web site for updates to this exercise.

Assignment

1. Select any firm involved in high technology and the Internet such as Microsoft or IBM. Examine its Web site and report its corporate position on social responsibility and giving as it has stated it. What activities is it involved in? What programs does it support, and how does it support them?
2. Search the Internet for commentary on business social responsibility, form your own opinions, and then evaluate the social effort demonstrated by the firm you have selected. What more could the firm have done?

❸ DEVELOPING CRITICAL-THINKING SKILLS

Recently, an article entitled "Employees Coming to Terms with Moral Issues on the Job" appeared in a big-city newspaper. It posed the following situations:

You are asked to work on a project you find morally wrong. Important tasks are left undone because a co-worker spends more time planning a social event than working on a proposal.
Your company is knowingly selling defective merchandise to customers.

Unfortunately, many employees currently are struggling with such issues. The moral dilemmas that arise when employees find their own ethical values incompatible with the work they do every day are causing a lot of stress in the workplace, and furthermore, these dilemmas are not being discussed. There exists an ethics gap. You already may have faced a similar situation in your workplace.

Assignment

1. In small groups with your classmates, discuss your answers to the following questions:
   a. If you were faced with any of the preceding situations, what would you do?

b. Would you complete work you found morally unacceptable, or would you leave it undone and say nothing?
   c. If you spoke up, what would happen to you or your career? What would be the risk?
   d. What are your options?
   e. If you were a manager rather than a lower-level employee, would you feel differently and take a different approach to the issue? Why?
2. In a written report, summarize what you learned from this discussion.

❹ BUILDING TEAM SKILLS

A firm's code of ethics outlines the kinds of behaviors expected within the organization and serves as a guideline for encouraging ethical behavior in the workplace. It reflects the rights of the firm's workers, shareholders, and consumers.

Assignment

1. Working in a team of four, find a code of ethics for a business firm. Start the search by asking firms in your community for a copy of their codes, by visiting the library, or by searching and downloading information from the Internet.
2. Analyze the code of ethics you have chosen, and answer the following questions:
   a. What does the company's code of ethics say about the rights of its workers, shareholders, consumers, and suppliers? How does the code reflect the company's attitude toward competitors?
   b. How does this code of ethics resemble the information discussed in this chapter? How does it differ?
   c. As an employee of this company, how would you personally interpret the code of ethics? How might the code influence your behavior within the workplace? Give several examples.

❺ RESEARCHING DIFFERENT CAREERS

Business ethics has been at the heart of many discussions over the years and continues to trouble employees and shareholders. Stories about dishonesty and wrongful behavior in the workplace appear on a regular basis in newspapers and on the national news.

Assignment

Prepare a written report on the following:

1. Why can it be so difficult for people to do what is right?
2. What is your personal code of ethics? Prepare a code outlining what you believe is morally right. The document should include guidelines for your personal behavior.
3. How will your code of ethics affect your decisions about:
   a. The types of questions you should ask in a job interview?
   b. Selecting a company in which to work?