Chapter 4

Ethics and Social Responsibility

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Key Terms
Concept Check
Self-Assessment
Management Decision
Management Team Decision
Develop Your Career Potential
Take Two Video

STUDENT RESOURCES

ThomsonNOW On the Job and Biz Flix video applications, concept tutorial, and concept exercise

Xtra! Eight exhibit worksheets, author FAQs, quiz, Management News, and the video clips from the chapter with exercises

Web (http://williams.swlearning.com) Quiz, PowerPoint slides, and glossary terms for this chapter

Gap, Inc. Headquarters, San Francisco, California.[1] When you decided to join Gap as its new CEO (Gap, Inc. runs Gap, Banana Republic, and Old Navy clothing stores), your teenage daughter immediately asked, "Doesn't Gap use sweatshops?" You weren't surprised by her question, as the company has received intense negative news coverage regarding the treatment of workers in the overseas factories from which it buys its clothes.

For example, a worker for a Gap supplier in Lesotho, Africa, complained, "The factory is dusty. We can't escape breathing in the the fibers. When we cough, if the t-shirt we were working on was made of blue fabric, then our mucus would be full of blue fibers." A worker in another Gap supplier's factory in Bangladesh said, "If we make simple mistakes, they beat us up. I made some small mistakes one time, so the supervisor came and slapped my head and pulled my ears. And if we make mistakes, they don't pay us for our work." In El Salvador, where workers complained about abuse and terrible working conditions, worker Maria Luz Panameno said, "I'm very proud to sew pants for Gap, but the board of directors should not be proud of what is happening to us. Gap has abandoned us." Some workers pointed out that wages were so low that they couldn't buy enough food for themselves and their families. Steve Weingarten, a union organizer who tries to unionize and represent factory workers, says, "We want Gap to stop exploiting sweatshop labor around the world. We want them to pay a wage that allows a decent standard of living and allows workers to organize unions to improve their conditions in factories."

What Would You Do?

Is Gap the only company that relies on such suppliers? No, it isn't. According to Kirk Douglass of Pivot International, a manufacturing company that owns factories in the Philippines and does work with Chinese companies, "If you go into almost any plant in the nondeveloped countries of the Far East, you're going to see things that OSHA [Occupational Safety and Health Administration] or EPA [Environmental Protection Agency] would shut down tomorrow." For years, because of strong competition and price-conscious consumers, retailers like Gap have quickly switched orders from one factory or country to another whenever they could find a lower price. According to protest groups, that intense pressure to keep prices low has encouraged factory owners and managers to do everything they can to cut their costs, including mistreating workers. And with 4,000 factories in 50 countries supplying clothes for Gap, Banana Republic, and Old Navy stores, protest groups see Gap as a big part of the problem.

With intense negative publicity, protest groups calling for worldwide boycotts of Gap products and stores, and the company losing money, you couldn't find a much tougher situation as a new CEO. On the one hand, because Gap is a publicly traded company, one of your most important responsibilities is to keep your stockholders happy by making sure the company is profitable. And that means your overseas suppliers have to keep their prices low. On the other hand, negative publicity and boycotts may lower sales and reduce profits. So how do you decide whose interests—stockholders, suppliers, overseas workers, or protesters—take precedence? Furthermore, is Gap really responsible for the terrible treatment of overseas workers? In other words, is this your problem, or a problem that the managers and owners of the overseas factories need to address? Finally, how should Gap respond? Should you do nothing, make minimal changes, or aggressively tackle these issues even if doing so affects the company's bottom line? **If you were the new CEO of Gap, Inc., what would you do?**

STUDY TIP

Every chapter in this book contains diagrams and tables to illustrate the text material. If you have Xtra!, worksheets made from these exhibits are available to help you review. Download them, fill them in, and then check your work by comparing your worksheet to the original exhibit in the chapter.

The dilemma facing Gap's new CEO is an example of the tough decisions involving ethics and social responsibility that managers face. Unfortunately, one of the "real-world" aspects of these decisions is that no matter what you decide, someone or some group will be unhappy with the outcome. Managers don't have the luxury of choosing theoretically optimal, win-win solutions that are obviously desirable to everyone involved. In practice, solutions to ethics and social responsibility problems aren't optimal. Often, managers must be satisfied with a solution that just "makes do" or "does the least harm." Crystal-clear rights and wrongs rarely reveal themselves to managers charged with "doing the right thing." The business world is much messier than that.

We begin this chapter by examining ethical behavior in the workplace and explaining how unethical behavior can expose a business to penalties under the U.S. Sentencing Guidelines for Organizations. Second, we examine the influences on ethical decision making and review practical steps that managers can take to improve ethical decision making. We finish by considering to whom organizations are socially responsible, what organizations are socially responsible for, how they can respond to societal expectations for social responsibility, and whether social responsibility hurts or helps an organization's economic performance.

What Is Ethical and Unethical Workplace Behavior?

ethics
The set of moral principles or values that defines right and wrong for a person or group.

Ethics is the set of moral principles or values that defines right and wrong for a person or group. Unfortunately, numerous studies have consistently produced distressing results about the state of ethics in today's business world. In a nationwide survey of 2,300 workers, 75 percent indicated that they had seen unethical behavior at work, such as deceptive sales practices, unsafe working conditions, environmental breaches, and mishandling of confidential or proprietary information, within the last year.[2] A similar survey of 2,293 workers across 48 states found that less than half (47 percent) felt that the senior leaders in their companies were ethical.[3] Finally, in a study of 1,324 randomly selected workers, managers, and executives across multiple industries, 48 percent of the respondents admitted to actually committing an unethical or illegal act in the past year! These acts included cheating on an expense account, discriminating against coworkers, forging signatures, paying or accepting kickbacks, and "looking the other way" when environmental laws were broken.[4] Clearly, in an era with widely publicized corporate scandals at Tyco, HealthSouth, Fannie Mae, and Adelphia (where executives allegedly committed fraud by overstating company results by billions of dollars and used company funds for their personal gain), poor business ethics is a serious and widespread problem.[5] Winn Swenson, director for integrity management services at KPMG, says, "Corporations need to recognize that the problem is out there."[6]

The studies also contained good news, however. When people are convinced that they work in an ethical work environment, they are six times more likely to stay with that company than if they believe they work in an unethical environment.[7] Furthermore, when 570 white-collar workers were asked which of 28 qualities were important in company leaders, honesty (24 percent) and integrity/morals/ethics (16 percent) ranked by far the highest (caring/compassion was third at 7 percent).[8] In short, much needs to be done to make workplaces more ethical, but, and this is very important, most managers and employees want this to happen.

After reading the next three sections, you should be able to

1. discuss how the nature of management jobs creates the possibility for ethical abuses.
2. identify common kinds of workplace deviance.

3 describe the U.S. Sentencing Commission Guidelines for Organizations and explain how they both encourage ethical behavior and punish unethical behavior by businesses.

1 ETHICS AND THE NATURE OF MANAGEMENT JOBS

ethical behavior
Behavior that conforms to a society's accepted principles of right and wrong.

Ethical behavior follows accepted principles of right and wrong. By contrast, unethical management behavior, such as lying about company profits or knowingly producing an unsafe product, occurs when managers personally violate accepted principles of right and wrong or encourage others to do so. Because of the nature of their jobs, managers can be tempted to engage in unethical managerial behavior in four areas: authority and power, handling information, influencing the behavior of others, and setting goals.

The *authority and power* inherent in some management positions can tempt managers to engage in unethical practices. Because managers often control company resources, there is a risk that some managers will cross the line from legitimate use of company resources to personal use. For example, treating a client to dinner is a common and legitimate business practice in many companies. But what about treating a client to a ski trip? Taking the company jet to attend a business meeting in San Diego is legitimate. But how about using the jet to come home to Chicago by way of Honolulu? Human resources can be misused as well. For example, unless it's in an employee's job description, using an employee to do personal chores, like picking up the manager's dry cleaning, is unethical behavior. Even worse, though, is using one's managerial authority and power for direct personal gain as some managers have done by using corporate funds to pay for extravagant personal parties, lavish home decorating, jewelry, or expensive pieces of art.

Handling information is another area in which managers must be careful to behave ethically. Information is a key part of management work. Managers collect it, analyze it, act on it, and disseminate it. In doing so, they are expected to be truthful and, when necessary, to keep confidential information confidential. Leaking company secrets to competitors, "doctoring" the numbers, wrongfully withholding information, and lying are some of the ways managers may misuse information entrusted to them. After thousands of customers canceled subscriptions because their papers weren't delivered on time (thanks to chronic problems at a new printing facility) and a "horrendous drop" in advertising dollars severely lowered revenues, managers at the *Chicago Sun-Times* began inflating its daily sales numbers so that it could charge more for advertising and offset the declining revenues. By fraudulently padding the numbers by 50,000 papers per day, the *Sun-Times* tricked advertisers into paying much higher advertising rates. John Cruickshank, who became the paper's new publisher after the scandal was discovered, admitted, "Our appetite for fake numbers became greater and greater."[9]

Managers must also be careful to behave ethically in the way they *influence the behavior of others,* especially those they supervise. Managerial work gives managers significant power to influence others. If managers tell employees to perform unethical acts (or face punishment), such as "faking the numbers to get results," then they are abusing their managerial power. This is sometimes called the "move it or lose it" syndrome. "Move it or lose it" managers tell employees, "Do it. You're paid to do it. If you can't do it, we'll find somebody who can."[10] A study of 400 managers found that the "move it or lose it" syndrome even affects top managers. Forty-seven percent of the corporate executives in this study said they would be willing to commit financial fraud by understating accounting write-offs that reduced company profits. Professor Art Brief, who conducted the study, said, "People in subordinate roles will comply with their superiors even when that includes wrongdoing that goes against their individual

ADAM ROUNDTREE/BLOOMBERG NEWS/LANDOV

Former WorldCom CEO Bernard Ebbers is pictured here arriving at court, where he was eventually found guilty of fraud, conspiracy, and filing false documents, which led to the massive $11 billion accounting fraud at the telecommunications carrier. Ebbers faces up to 85 years in prison.

moral code. I thought they would stick with their values, but most organizations are structured to produce obedience."[11]

Setting goals is another way that managers influence the behavior of their employees. If managers set unrealistic goals, the pressure to perform and achieve those goals can influence employees to engage in unethical business behaviors, especially if they are just short of meeting their goals or a deadline.[12] After disappointing sales numbers at WorldCom, a regional vice president sent this email to sales representatives and managers: "Enough is enough of this disgraceful trend. Please write up everyone that missed their forecast and let them know further failure to accurately forecast [their numbers] will result in further disciplinary action up to termination from the company."[13] At this point, numerous sales representatives began double booking their sales (thus "doubling" their sales and their commissions) in two separate sales revenue databases (one from the MCI division and one from WorldCom) that had not yet been merged. According to former manager Neil Potter, double booking "was going on everywhere."[14] As former human resource manager Hank Larkin said, "It was really a numbers game with WorldCom. And people would do anything to make those numbers."[15]

Review 1: Ethics and the Nature of Management Jobs

Ethics is the set of moral principles or values that define right and wrong. Ethical behavior occurs when managers follow those principles and values. Because they set the standard for others in the workplace, managers can model ethical behavior by using resources for company business and not personal gain. Furthermore, managers can encourage ethical behavior by handling information in a confidential and honest fashion, by not using their authority to influence others to engage in unethical behavior, by not creating policies that unintentionally reward employees for unethical behavior, and by setting reasonable rather than unreasonable goals.

2 WORKPLACE DEVIANCE

Depending on which study you look at, one-third to three-quarters of all employees admit that they have stolen from their employers, committed computer fraud, embezzled funds, vandalized company property, sabotaged company projects, faked injuries to receive workers' compensation benefits or insurance, or been "sick" from work when they weren't really sick. Experts estimate that unethical behaviors like these, which researchers call "workplace deviance," may cost companies as much as $660 billion a year, or roughly 6 percent of their revenues.[16]

workplace deviance
Unethical behavior that violates organizational norms about right and wrong.

More specifically, **workplace deviance** is unethical behavior that violates organizational norms about right and wrong. As Exhibit 4.1 shows, workplace deviance can be categorized by how deviant the behavior is, from minor to serious, and by the target of the deviant behavior, either the organization or particular people in the workplace.[17] One kind of workplace deviance, called **production deviance,** hurts the quality and quantity of work produced. Examples include leaving early, taking excessively long work breaks, intentionally working slower, or wasting resources.

production deviance
Unethical behavior that hurts the quality and quantity of work produced.

property deviance
Unethical behavior aimed at the organization's property or products.

Property deviance is unethical behavior aimed at company property or products. Examples include sabotaging, stealing, or damaging equipment or products, and overcharging for services and then pocketing the difference. For example,

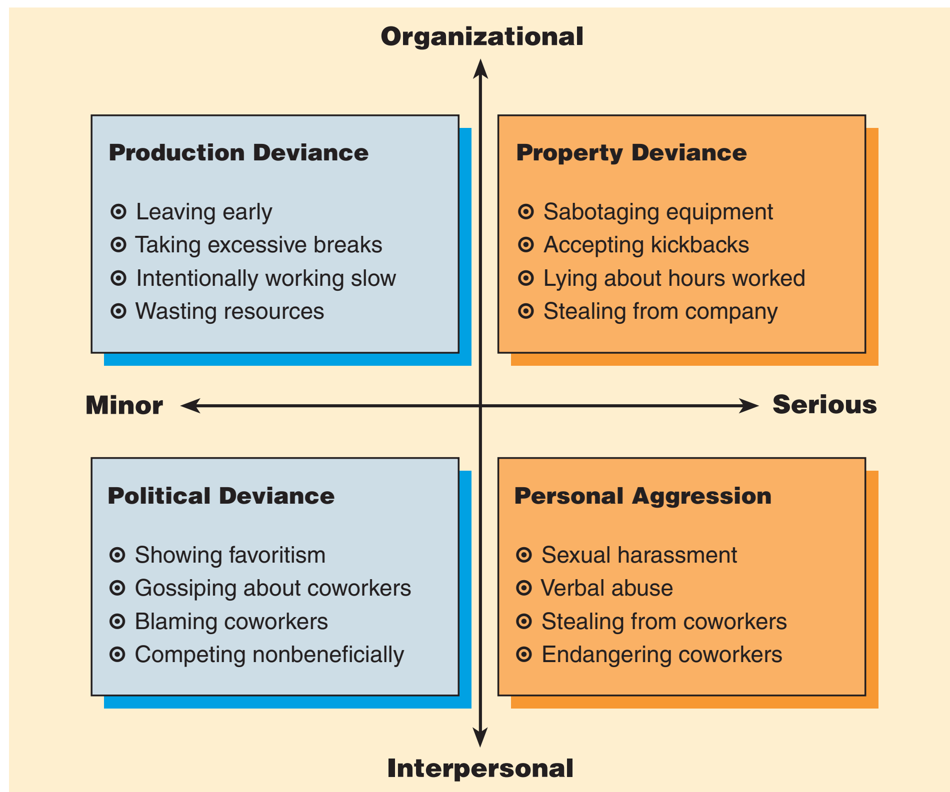


Exhibit 4.1
Types of Workplace Deviance

Source: Republished with permission of Academy of Management, P.O .Box 3020, Briar Cliff Manor, NY, 10510-8020. "A Typology of Deviant Workplace Behaviors," (Figure), S. L. Robinson & R. J. Bennett. *Academy of Management Journal,* 1995, Vol. 38. Reproduced by permission of the publisher via Copyright Clearance Center, Inc.

property deviance in the form of stealing was so bad at the telecommunications company where Bill Weiss worked that employees referred to the supply room as the "gift shop" where everything was available at "five-finger discount prices." Perforated boards, which were used to make prototypes for electronic devices, were taken by employees to finish the walls in their basements. Leather work gloves disappeared only to end up being used in employees' gardens. Said Weiss, "Every April, 4,000 pairs of these things used to disappear."[18] Sometimes, property deviance involves the sabotage of company property. At Omega Engineering, an employee planted a software bomb in the centralized file server containing the company's key programs and data. The code destroyed the programs and data that ran the machines in Omega's manufacturing plant. The company lost $10 million as a result, including $2 million in reprogramming costs. Eighty employees had to be laid off because of lost business resulting from the incident.[19]

The theft of company merchandise by employees, called **employee shrinkage,** is another common form of property deviance. Employee shrinkage, which costs traditional U.S. retailers more than $15.8 billion a year and typically reduces store profits by 2 to 3 percent, takes many forms.[20] "Sweet hearting" occurs when employees discount or don't ring up merchandise their family or friends bring to the cash register. In "dumpster diving," employees unload trucks, stash merchandise in a dumpster, and then retrieve it after work.[21] To help grocery stores reduce employee shrinkage, which costs the typical store approximately $350,000 per year, companies such as Procter & Gamble and Gillette are inserting radio frequency antitheft tags (see Chapter 17 for further information), some as small as the head of a pin, in low-cost household products like Bounty paper towels and Gillette blades and razors. The antitheft tags have built-in antennas that transmit unique identification numbers that enable a store to track a product and determine whether it "disappears" off the

employee shrinkage
Employee theft of company merchandise.

loading truck, falls off the shelf, is properly purchased, or is stolen by employees when they leave for the day.[22]

political deviance
Using one's influence to harm others in the company.

personal aggression
Hostile or aggressive behavior toward others.

Whereas production and property deviance harm companies, political deviance and personal aggression are unethical behaviors that hurt particular people within companies. **Political deviance** is using one's influence to harm others in the company. Examples include making decisions based on favoritism rather than performance, spreading rumors about coworkers, or falsely blaming others for mistakes they didn't make. **Personal aggression** is hostile or aggressive behavior toward others. Examples include sexual harassment, verbal abuse, stealing from coworkers, or personally threatening coworkers. One of the fastest-growing kinds of personal aggression is workplace violence. A former Navistar employee forced his way into a Chicago factory and killed four people after firing 30 shots from an AK-47. The day after Christmas, an employee of Edgewater Technology walked into the accounting department and shot seven people dead. And, in the worst mass murder in Hawaii's history, a frustrated copier repairman killed seven people outside a parts warehouse in Honolulu.[23] More than 2 million Americans are victims of some form of workplace violence each year. Between 650 and 1,000 people are killed at work each year.[24] Though many victims are police officers, security guards, or taxi drivers, store owners and company managers are killed most often.[25] For more information on workplace violence, see the Web site of the National Institute for Occupational Safety and Health, **http://www.cdc.gov/niosh/violfs.html**.

Review 2: Workplace Deviance

Workplace deviance is behavior that violates important organizational norms about right and wrong and harms the organization or its workers. Production deviance and property deviance harm the company, whereas political deviance and personal aggression harm individuals within the company.

3 U.S. SENTENCING COMMISSION GUIDELINES FOR ORGANIZATIONS

A male supervisor is sexually harassing female coworkers. A sales representative offers a $10,000 kickback to persuade an indecisive customer to do business with his company. A company president secretly meets with the CEO of her biggest competitor, and they agree not to compete in markets where the other has already established customers. Each of these behaviors is clearly unethical (and, in these cases, illegal, too). Historically, if management was unaware of such activities, the company could not be held responsible for an employee's unethical acts. Since 1991, however, when the U.S. Sentencing Commission Guidelines for Organizations were established, companies can be prosecuted and *punished even if management didn't know about the unethical behavior.* Moreover, penalties can be substantial, with maximum fines approaching $300 million![26]

Let's examine **3.1 to whom the guidelines apply and what they cover** and **3.2 how, according to the guidelines, an organization can be punished for the unethical behavior of its managers and employees.**

3.1 Who, What, and Why?

Nearly all businesses, nonprofits, partnerships, labor unions, unincorporated organizations and associations, incorporated organizations, and even pension funds, trusts, and joint stock companies are covered by the guidelines. If your organization can be characterized as a business (remember, nonprofits count, too), then it is subject to the guidelines.[27]

The guidelines cover offenses defined by federal laws, such as invasion of privacy, price fixing, fraud, customs violations, antitrust violations, civil rights violations, theft, money laundering, conflicts of interest, embezzlement, dealing

in stolen goods, copyright infringements, extortion, and more. It's not enough merely to stay "within the law," however. The purpose of the guidelines is not just to punish companies *after* they or their employees break the law, but rather to encourage companies to take proactive steps that will discourage or prevent white-collar crime *before* it happens. The guidelines also give companies an incentive to cooperate with and disclose illegal activities to federal authorities.[28]

3.2 Determining the Punishment

The guidelines impose smaller fines on companies that take proactive steps to encourage ethical behavior or voluntarily disclose illegal activities to federal authorities. Essentially, the law uses a "carrot-and-stick" approach. The stick is the threat of heavy fines that can total millions of dollars. The carrot is a greatly reduced fine, but only if the company has started an effective compliance program (discussed below) to encourage ethical behavior *before* the illegal activity occurs.[29] The method used to determine a company's punishment illustrates the importance of establishing a compliance program.

The first step is to compute the *base fine* by determining what *level of offense* has occurred. The level of the offense (i.e., its seriousness) varies depending on the kind of crime, the loss incurred by the victims, and how much planning went into the crime. For example, simple fraud is a level 6 offense (there are 38 levels in all). But if the victims of that fraud lost more than $5 million, that level 6 offense becomes a level 22 offense. Moreover, anything

Exhibit 4.2
Offense Levels, Base Fines, Culpability Scores, and Possible Total Fines under the U.S. Sentencing Commission Guidelines for Organizations

Offense Level	Base Fine	0.05	0.5	1.0	2.0	3.0	4.0
6 or less	$ 5,000	$ 250	$ 2,500	$ 5,000	$ 10,000	$ 15,000	$ 20,000
7	7,500	375	3,750	7,500	15,000	22,500	30,000
8	10,000	500	5,000	10,000	20,000	30,000	40,000
9	15,000	750	7,500	15,000	30,000	45,000	60,000
10	20,000	1,000	10,000	20,000	40,000	60,000	80,000
11	30,000	1,500	15,000	30,000	60,000	90,000	120,000
12	40,000	2,000	20,000	40,000	80,000	120,000	160,000
13	60,000	3,000	30,000	60,000	120,000	180,000	240,000
14	85,000	4,250	42,500	85,000	170,000	255,000	340,000
15	125,000	6,250	62,500	125,000	250,000	375,000	500,000
16	175,000	8,750	87,500	175,000	350,000	525,000	700,000
17	250,000	12,500	125,000	250,000	500,000	750,000	1,000,000
18	350,000	17,500	175,000	350,000	700,000	1,050,000	1,400,000
19	500 ,000	25,000	250,000	500,000	1,000,000	1,500,000	2,000,000
20	650,000	32,500	325,000	650,000	1,300,000	1,950,000	2,600,000
21	910,000	45,500	455,000	910,000	1,820,000	2,730,000	3,640,000
22	1,200,000	60,000	600,000	1,200,000	2,400,000	3,600,000	4,800,000
23	1,600,000	80,000	800,000	1,600,000	3,200,000	4,800,000	6,400,000
24	2,100,000	105,000	1,050,000	2,100,000	4,200,000	6,300,000	8,400,000
25	2,800,000	140,000	1,400,000	2,800,000	5,600,000	8,400,000	11,200,000
26	3,700,000	185,000	1,850,000	3,700,000	7,400,000	11,100,000	14,800,000
27	4,800,000	240,000	2,400,000	4,800,000	9,600,000	14,400,000	19,200,000
28	6,300,000	315,000	3,150,000	6,300,000	12,600,000	18,900,000	25,200,000
29	8,100,000	405,000	4,050,000	8,100,000	16,200,000	24,300,000	32,400,000
30	10,500,000	525,000	5,250,000	10,500,000	21,000,000	31,500,000	42,000,000
31	13,500,000	675,000	6,750,000	13,500,000	27,000,000	40,500,000	54,000,000
32	17,500,000	875,000	8,750,000	17,500,000	35,000,000	52,500,000	70,000,000
33	22,000,000	1,100,000	11,000,000	22,000,000	44,000,000	66,000,000	88,000,000
34	28,500,000	1,425,000	14,250,000	28,500,000	57,000,000	85,500,000	114,000,000
35	36,000,000	1,800,000	18,000,000	36,000,000	72,000,000	108,000,000	144,000,000
36	45,500,000	2,275,000	22,750,000	45,500,000	91,000,000	136,500,000	182,000,000
37	57,500,000	2,875,000	28,750,000	57,500,000	115,000,000	172,500,000	230,000,000
38 or more	72,500,000	3,625,000	36,250,000	72,500,000	145,000,000	217,500,000	290,000,000

Source: "Chapter Eight—Part C—Fines," 2004 Federal Sentencing Guidelines, [Online] available at http://www.ussc.gov/2004guid/8c2_4.htm, 27 January 2005.

beyond minimal planning to commit the fraud results in an increase of two levels to a level 24 offense. How much difference would this make to the company? As Exhibit 4.2 shows, crimes at or below level 6 incur a base fine of $5,000, whereas the base fine for level 24 is $2.1 million. So the difference is $2.095 million! The base fine for level 38, the top-level offense, is a hefty $72.5 million.

After assessing a *base fine*, the judge computes a culpability score, which is a way of assigning blame to the company. The culpability score can range from a minimum of 0.05 to a maximum of 4.0. The greater the corporate responsibility in conducting, encouraging, or sanctioning illegal or unethical activity, the higher the culpability score. A company that already has a compliance program and voluntarily reports the offense to authorities will incur a culpability score of 0.05. By contrast, a company whose management secretly plans, approves, and participates in illegal or unethical activity will receive the maximum score of 4.0.

The culpability score is critical because the total fine is computed by multiplying the base fine by the culpability score. Going back to our level 24 fraud offense, the left point of the upper arrow in Exhibit 4.2 shows that a company with a compliance program that turns itself in will be fined only $105,000 ($2,100,000 × 0.05). In contrast, a company that secretly planned, approved, and participated in illegal activity will be fined $8.4 million ($2,100,0003 × 4.0), as shown by the right point of the upper arrow. The difference is even greater for level 38 offenses. As shown by the left point of the bottom arrow, a company with a compliance program and a 0.05 culpability score is fined only $3.625 million, whereas a company with the maximum 4.0 culpability score is fined a whopping $290 million, as indicated by the right point of the bottom arrow. These differences clearly show the importance of having a compliance program in place. Over the last decade, 1,494 companies have been charged under the U.S. Sentencing Guidelines. Seventy-six percent of those charged were fined, with the average fine exceeding $2 million. Company fines are on average 20 times larger now than before the implementation of the guidelines in 1991.[30]

Fortunately, for companies that want to avoid paying these stiff fines, the U.S. Sentencing Guidelines clearly spell out the seven necessary components of an effective compliance program.[31] Exhibit 4.3 lists those components. Caremark International, a managed-care service provider in Delaware, pleaded guilty to criminal charges related to its physician contracts and improper patient referrals. When it was sued by shareholders for negligence and poor management, the Delaware court dismissed the case, ruling that the company's ethics compliance program, built on the components described in Exhibit 4.3, was a "good-faith attempt" to monitor employees and that the company did not knowingly allow illegal and unethical behavior to occur. The court went on to rule that a compliance program based on the U.S. Sentencing Guidelines was enough to shield the company from liability.[32]

For more information, see "An Overview of the Organizational Sentencing Guidelines" at **http://www.ussc.gov/training/corpover.PDF** and "Sentencing Guidelines Educational Materials" at **http://www.ussc.gov/training/educat.htm**

Review 3: U.S. Sentencing Commission Guidelines

Under the U.S. Sentencing Commission Guidelines, companies can be prosecuted and fined up to $300 million for employees' illegal actions. Fines are computed by multiplying the base fine by a culpability score, which ranges from 0.05 to 4.0. Companies that establish compliance programs to encourage ethical behavior can reduce their culpability scores and their fines. Companies without compliance programs can face much heavier fines than companies with established programs. Compliance programs must establish standards and

Source: D. R. Dalton, M. B. Metzger, & J. W. Hill, "The 'New' U.S. Sentencing Commission Guidelines: A Wake-up Call for Corporate America," *Academy of Management Executive* 8 (1994): 7–16.

Exhibit 4.3
Compliance Program Steps for the U.S. Sentencing Guidelines for Organizations

procedures, be run by top managers, encourage hiring and promotion of honest and ethical people, encourage employees to report violations, educate employees about compliance, punish violators, and find ways to improve the program after violations occur.

How Do You Make Ethical Decisions?

On a cold morning in the midst of a winter storm, schools were closed, and most people had decided to stay home from work. Nevertheless, Richard Addessi had already showered, shaved, and dressed for the office. Addessi was just four months short of his 30-year anniversary with the company. Addessi kissed his wife Joan goodbye, but before he could get to his car, he fell dead on the garage floor of a sudden heart attack. Having begun work at IBM at the age of 18, he was just 48 years old.[33]

You're the vice president in charge of benefits at IBM. Given that he was four months short of full retirement, do you award full retirement benefits to Mr. Addessi's wife and daughters? If the answer is yes, they will receive his full retirement benefits of $1,800 a month and free lifetime medical coverage. If you say no, Mrs. Addessi and her daughters will receive only $340 a month. They will also have to pay $473 a month just to continue their current medical

coverage. As the VP in charge of benefits at IBM, what would be the ethical thing to do?

After reading the next two sections, you should be able to

4 describe what influences ethical decision making.

5 explain what practical steps managers can take to improve ethical decision making.

4 INFLUENCES ON ETHICAL DECISION MAKING

So, what did IBM decide to do? Since Richard Addessi was four months short of 30 years with the company, IBM officials felt they had no choice but to give Joan Addessi and her two daughters the smaller, partial retirement benefits. Do you think IBM's decision was ethical? Probably many of you don't. You wonder how the company could be so heartless as to deny Richard Addessi's family the full benefits to which you believe they were entitled. Yet others might argue that IBM did the ethical thing by strictly following the rules laid out in its pension benefit plan. After all, being fair means applying the rules to everyone. Although some ethical issues are easily solved, many do not have clearly right or wrong answers.

The ethical answers that managers choose depend on **4.1 the ethical intensity of the decision, 4.2 the moral development of the manager,** and **4.3 the ethical principles used to solve the problem.**

4.1 Ethical Intensity of the Decision

Managers don't treat all ethical decisions the same. The manager who has to decide whether to deny or extend full benefits to Joan Addessi and her family is going to treat that decision much more seriously than the decision of how to deal with an assistant who has been taking computer paper home for personal use. These decisions differ in their **ethical intensity,** or the degree of concern people have about an ethical issue. When addressing an issue of high ethical intensity, managers are more aware of the impact their decision will have on others. They are more likely to view the decision as an ethical or moral decision rather than as an economic decision. They are also more likely to worry about doing the "right thing."

ethical intensity
The degree of concern people have about an ethical issue.

Ethical intensity depends on six factors:[34]

- magnitude of consequences
- social consensus
- probability of effect
- temporal immediacy
- proximity of effect
- concentration of effect.

magnitude of consequences
The total harm or benefit derived from an ethical decision.

social consensus
Agreement on whether behavior is bad or good.

probability of effect
The chance that something will happen and then harm others.

temporal immediacy
The time between an act and the consequences the act produces.

Magnitude of consequences is the total harm or benefit derived from an ethical decision. The more people who are harmed or the greater the harm to those people, the larger the consequences. **Social consensus** is agreement on whether behavior is bad or good. **Probability of effect** is the chance that something will happen and then result in harm to others. If we combine these factors, we can see the effect they can have on ethical intensity. For example, if there is *clear agreement* (social consensus) that a managerial decision or action is *certain* (probability of effect) to have *large negative consequences* (magnitude of effect) in some way, then people will be highly concerned about that managerial decision or action, and ethical intensity will be high.

Temporal immediacy is the time between an act and the consequences the act produces. Temporal immediacy is stronger if a manager has to lay off workers

next week as opposed to three months from now. **Proximity of effect** is the social, psychological, cultural, or physical distance of a decision maker from those affected by his or her decisions. Thus, proximity of effect is greater for the manager who works with employees who are to be laid off than it is for a manager who works where no layoffs will occur. Finally, whereas the magnitude of consequences is the total effect across all people, **concentration of effect** is how much an act affects the average person. Temporarily laying off 100 employees for 10 months without pay is a greater concentration of effect than temporarily laying off 1,000 employees for 1 month.

proximity of effect
The social, psychological, cultural, or physical distance between a decision maker and those affected by his or her decisions.

concentration of effect
The total harm or benefit that an act produces on the average person.

Which of these six factors has the most impact? Studies indicate that managers are much more likely to view decisions as ethical decisions when the magnitude of consequences (total harm) is high and there is a social consensus (agreement) that a behavior or action is bad.[35]

Many people will likely feel IBM was wrong to deny full benefits to Joan Addessi. Why? In this situation, IBM's decision met five of the six characteristics of ethical intensity. The difference in benefits (more than $23,000 per year) was likely to have serious consequences for the family. The decision was certain to affect them and would do so immediately. We can closely identify with Joan Addessi and her daughters (as opposed to IBM's faceless, nameless corporate identity). And the decision would have a concentrated effect on the family in terms of their monthly benefits ($1,800 and free medical coverage if full benefits were awarded versus $340 a month and medical care that costs $473 per month if they weren't).

The exception, as we will discuss below, is social consensus. Not everyone will agree that IBM's decision was unethical. The judgment also depends on your level of moral development and which ethical principles you use to decide.

4.2 Moral Development

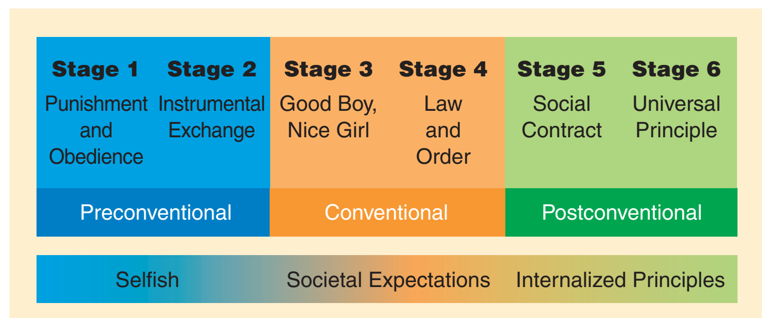
A friend of yours has given you the latest version of Microsoft Office. She stuffed the software disks in your backpack with a note saying that you should install it on your computer and get it back to her in a couple of days. You're tempted. You have papers to write, notes to take, and presentations to plan. Besides, all of your friends have the same version of Microsoft Office. They didn't pay for it either. Copying the software to your hard drive without buying your own copy clearly violates copyright laws. But no one would find out. Even if someone does, Microsoft probably isn't going to come after you. Microsoft goes after the big fish—companies that illegally copy and distribute software to their workers. Your computer has booted up, and you've got your mouse in one hand and the installation disk in the other. What are you going to do?[36]

preconventional level of moral development
The first level of moral development in which people make decisions based on selfish reasons.

conventional level of moral development
The second level of moral development in which people make decisions that conform to societal expectations.

In part, according to Lawrence Kohlberg, your decision will be based on your level of moral development. Kohlberg identified three phases of moral development, with two stages in each phase (see Exhibit 4.4).[37] At the **preconventional level of moral development,** people decide based on selfish reasons. For example, if you are in Stage 1, the punishment and obedience stage, your primary concern will be to avoid trouble for yourself. So, you won't copy the software because you are afraid of being caught and punished. Yet, in Stage 2, the instrumental exchange stage, you worry less about punishment and more about doing things that directly advance your wants and needs. So, you copy the software.

Exhibit 4.4
Kohlberg's Stages of Moral Development



Source: W. Davidson III & D. Worrell, "Influencing Managers to Change Unpopular Corporate Behavior through Boycotts and Divestitures," *Business & Society* 34 (1995): 171–196.

People at the **conventional level of moral development** make decisions that conform to societal expectations. In other words, they look outside themselves to others for guidance

on ethical issues. In Stage 3, the good boy, nice girl stage, you normally do what the other "good boys" and "nice girls" are doing. If everyone else is illegally copying software, you will, too. But if they aren't, you won't either. In the law and order stage, Stage 4, you again look for external guidance and do whatever the law permits, so you won't copy the software.

postconventional level of moral development
The third level of moral development in which people make decisions based on internalized principles.

People at the **postconventional level of moral development** always use internalized ethical principles to solve ethical dilemmas. In Stage 5, the social contract stage, you will refuse to copy the software because, as a whole, society is better off when the rights of others—in this case, the rights of software authors and manufacturers—are not violated. In Stage 6, the universal principle stage, you might or might not copy the software, depending on your principles of right and wrong. Moreover, you will stick to your principles even if your decision conflicts with the law (Stage 4) or what others believe is best for society (Stage 5). For example, those with socialist or communist beliefs would probably choose to copy the software because they believe goods and services should be owned by society rather than by individuals and corporations. (For information about the dos, don'ts, and legal issues concerning software piracy, see the Software & Information Industry Association's Web site at **http://www.siia.net/piracy/default.asp.**)

Kohlberg believed that as people became more educated and mature, they would progress sequentially from earlier stages to later stages. But only 20 percent of adults ever reach the postconventional stage of moral development where internal principles guide their decisions. By contrast, most adults are in the conventional stage of moral development in which they look outside themselves to others for guidance on ethical issues. This means that most people in the workplace look to and need leadership when it comes ethical decision making.[38]

4.3 Principles of Ethical Decision Making

Besides an issue's ethical intensity and a manager's level of moral maturity, the particular ethical principles that managers use will also affect how they solve ethical dilemmas. Unfortunately, there is no one "ideal principle" to use in making ethical business decisions.

According to Professor Larue Hosmer, a number of different ethical principles can be used to make business decisions: long-term self-interest, personal virtue, religious injunctions, government requirements, utilitarian benefits, individual rights, and distributive justice.[39] All of these ethical principles encourage managers and employees to take others' interests into account when making ethical decisions. At the same time, however, these principles can lead to very different ethical actions, as we can see by using these principles to decide whether to award full benefits to Joan Addessi and her children.

principle of long-term self-interest
An ethical principle that holds that you should never take any action that is not in your or your organization's long-term self-interest.

According to the **principle of long-term self-interest,** you should never take any action that is not in your or your organization's long-term self-interest. Although this sounds as if the principle promotes selfishness, it doesn't. What we do to maximize our long-term interests (save more, spend less, exercise every day, watch what we eat) is often very different from what we do to maximize short-term interests (max out our credit cards, be couch potatoes, eat whatever we want). At any given time, IBM has nearly 1,000 employees who are just months away from retirement. Thus, because of the costs involved, it serves IBM's long-term interest to pay full benefits only after employees have put in their 30 years.

principle of personal virtue
An ethical principle that holds that you should never do anything that is not honest, open, and truthful and that you would not be glad to see reported in the newspapers or on TV.

The **principle of personal virtue** holds that you should never do anything that is not honest, open, and truthful and that you would not be glad to see reported in the newspapers or on TV. Using the principle of personal virtue, IBM should have quietly awarded Joan Addessi her husband's full benefits. Had it done so, it could have avoided the publication of an embarrassing *Wall Street Journal* article on this topic.

The **principle of religious injunctions** holds that you should never take an action that is unkind or that harms a sense of community, such as the positive feelings that come from working together to accomplish a commonly accepted goal. Using this principle, IBM would have been concerned foremost with compassion and kindness. Thus, it would have awarded full benefits to Joan Addessi.

prinicple of religious injunctions
An ethical principle that holds that you should never take any action that is not kind and that does not build a sense of community.

According to the **principle of government requirements,** the law represents the minimal moral standards of society, so you should never take any action that violates the law. Using this principle, IBM would deny full benefits to Joan Addessi because her husband did not work for the company for 30 years. Indeed, an IBM spokesperson stated that making exceptions would violate the federal Employee Retirement Income Security Act of 1974.

principle of government requirements
An ethical principle that holds that you should never take any action that violates the law, for the law represents the minimal moral standard.

The **principle of utilitarian benefits** states that you should never take an action that does not result in greater good for society. In short, you should do whatever creates the greatest good for the greatest number. At first, this principle seems to suggest that IBM should award full benefits to Joan Addessi. If IBM did this with any regularity, however, the costs would be enormous, profits would shrink, and IBM woud have to cut its stock dividend, harming countless shareholders, many of whom rely on IBM dividends for retirement income. So, in this case, the principle does not lead to a clear choice.

principle of utilitarian benefits
An ethical principle that holds that you should never take any action that does not result in greater good for society.

The **principle of individual rights** holds that you should never take an action that infringes on others' agreed-upon rights. Using this principle, IBM would deny Joan Addessi full benefits. If it carefully followed the rules specified in its pension plan and granted Mrs. Addessi due process, meaning the right to appeal the decision, then IBM would not be violating her rights. In fact, it could be argued that providing full benefits to Mrs. Addessi would violate the rights of employees who had to wait 30 years to receive full benefits.

principle of individual rights
An ethical principle that holds that you should never take any action that infringes on others' agreed-upon rights.

Finally, under the **principle of distributive justice,** you should never take any action that harms the least among us in some way. This principle is designed to protect the poor, the uneducated, and the unemployed. Although Joan Addessi could probably find a job, after 20 years as a stay-at-home mom, it's unlikely that she could easily find one that would support her and her daughters in the manner to which they are accustomed. Using the principle of distributive justice, IBM would award her full benefits.

principle of distributive justice
An ethical principle that holds that you should never take any action that harms the least among us: the poor, the uneducated, the unemployed.

As mentioned at the beginning of this chapter, one of the "real-world" aspects of ethical decisions is that no matter *what* you decide, someone or some group will be unhappy. This corollary is also true: No matter *how* you decide, someone or some group will be unhappy. Consequently, although all of these ethical principles encourage managers to balance others' needs against their own, they can also lead to very different ethical actions. So, even when managers strive to be ethical, there are often no clear answers when it comes to doing "the" right thing.

Review 4: Influences on Ethical Decision Making

Three factors influence ethical decisions: the ethical intensity of the decision, the moral development of the manager, and the ethical principles used to solve the problem. Ethical intensity is strong when decisions have large, certain, immediate consequences and when we are physically or psychologically close to those affected by the decision. There are three phases of moral maturity with two steps within each phase. At the preconventional level, decisions are made for selfish reasons. At the conventional level, decisions conform to societal expectations. At the postconventional level, internalized principles are used to make ethical decisions. Finally, managers can use a number of different principles when making ethical decisions: self-interest, personal virtue, religious injunctions, government requirements, utilitarian benefits, individual rights, and distributive justice.

5 PRACTICAL STEPS TO ETHICAL DECISION MAKING

Managers can encourage more ethical decision making in their organizations by **5.1 carefully selecting and hiring ethical employees, 5.2 establishing a specific code of ethics, 5.3 training employees to make ethical decisions,** and **5.4 creating an ethical climate.**

5.1 Selecting and Hiring Ethical Employees

overt integrity test
A written test that estimates job applicants' honesty by directly asking them what they think or feel about theft or about punishment of unethical behaviors.

personality-based integrity test
A written test that indirectly estimates job applicants' honesty by measuring psychological traits such as dependability and conscientiousness.

If you found a wallet containing $100, would you return it with the money? Informal studies typically show that 57 to 80 percent of people would and that women and people in small towns are more likely to return the wallet with the money.[40]

As an employer, you can increase your chances of hiring the honest person who returns the wallet with the money if you give job applicants integrity tests. **Overt integrity tests** estimate job applicants' honesty by directly asking them what they think or feel about theft or about punishment of unethical behaviors.[41] For example, an employer might ask an applicant, "Would you ever consider buying something from somebody if you knew the person had stolen the item?" or "Don't most people steal from their companies?" Surprisingly, because they believe that the world is basically dishonest and that dishonest behavior is normal, unethical people will usually answer "yes" to such questions.[42]

Personality-based integrity tests indirectly estimate job applicants' honesty by measuring psychological traits such as dependability and conscientiousness. For example, prison inmates serving time for white-collar crimes (counterfeiting, embezzlement, and fraud) scored much lower than a comparison group of middle-level managers on scales measuring reliability, dependability, honesty, conscientiousness, and abiding by rules.[43] These results show that companies can selectively hire and promote people who will be more ethical.[44] For more on integrity testing, see the "What Really Works" feature in this chapter.

DOING THE RIGHT THING

IF YOU CHEAT IN COLLEGE, WILL YOU CHEAT IN THE WORKPLACE?

Studies show that college students who cheat once are likely to cheat again. Students who cheat on exams are likely to cheat on assignments and projects. Furthermore, tolerance of cheating is widespread, as 70 percent of college students don't see cheating as a problem. Given these relaxed attitudes toward cheating, and with on-campus cheating at all-time highs, employers want to know whether someone who cheated in college will cheat in the workplace. Studies generally indicate that the answer is "yes." The best predictor of cheating in medical school was cheating in high school or college. Likewise, students who cheated in school were much more likely to cheat on their taxes, in politics (by committing voter fraud or accepting illegal campaign contributions), in sports, and on the job. Why is this the case? Apparently, people who cheat and then cheat again come to see their behavior as normal and to rationalize it by telling themselves that cheating isn't wrong. In fact, 60 percent of the people who cheat their employers don't feel guilty about doing so. So, if you want to do the right thing, don't cheat in college or tolerate cheating by others. Cheating isn't situation-specific. Once you decide that cheating is acceptable, you're likely to cheat in most areas of your life.[47] Don't slide down the slippery slope of cheating.

5.2 Codes of Ethics

Exhibit 4.5 displays the ethical code of conduct for Portland General Electric, a large electrical utility company, in Portland, Oregon. The code urges employees to conduct themselves as "responsible and responsive corporate citizens," "respect the environment," "maintain high levels of legal and ethical conduct," and "deal honestly and fairly with customers."

Today, 90 percent of large corporations have an ethics code in place, 51 percent have dedicated telephone lines for reporting ethical concerns, and 30 percent have formal ethics and legal compliance offices.[45] Still, two things must happen if those codes are to encourage ethical decision making and behavior.[46] First, a company must communicate its code to others both inside and outside the company. An excellent example of a well-communicated code of ethics can be found at Nortel Networks' Internet site at **http://www.nortel.com**. With the click of a computer mouse, anyone inside or outside the company can obtain detailed information

Integrity Tests

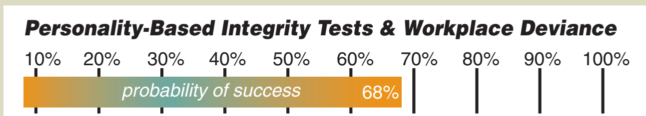
Under the 1991 U.S. Sentencing Commission Guidelines, unethical employee behavior can lead to multimillion dollar fines for corporations. Moreover, workplace deviance like stealing, fraud, and vandalism costs companies an estimated $660 billion a year. One way to reduce workplace deviance and the chances of a large fine for unethical employee behavior is to use overt and personality-based integrity tests to screen job applicants.

One hundred eighty-one studies, with a combined total of 576,460 study participants, have examined how well integrity tests can predict job performance and various kinds of workplace deviance. These studies show that not only can integrity tests help companies reduce workplace deviance, but they provide the added bonus of helping companies hire workers who are better performers in their jobs.

WORKPLACE DEVIANCE (COUNTERPRODUCTIVE BEHAVIORS)

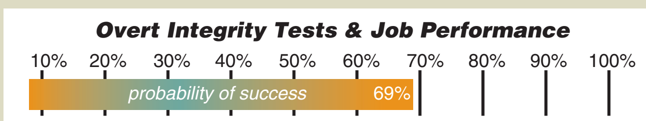
Compared to job applicants who score poorly, there is an 82 percent chance that job applicants who score well on overt integrity tests will participate in less illegal activity, unethical behavior, drug abuse, or workplace violence.

Personality-based integrity tests also do a good job of predicting who will engage in workplace deviance. Compared to job applicants who score poorly, there is a 68 percent chance that job applicants who score well on personality-based integrity tests will participate in less illegal activity, unethical behavior, excessive absences, drug abuse, or workplace violence.



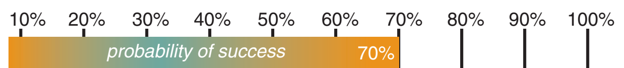
JOB PERFORMANCE

In addition to reducing unethical behavior and workplace deviance, integrity tests can help companies hire better performers. Compared to employees who score poorly, there is a 69 percent chance that employees who score well on overt integrity tests will be better performers.



The figures are nearly identical for personality-based integrity tests. Compared to those who score poorly, there is a 70 percent chance that employees who score well on personality-based integrity tests will be better at their jobs.

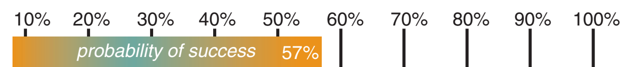
Personality-Based Integrity Tests & Job Performance



Theft

Although integrity tests can help companies decrease most kinds of workplace deviance and increase employees' job performance, they have a smaller effect on a specific kind of workplace deviance: theft. Compared to employees who score poorly, there is a 57 percent chance that employees who score well on overt integrity tests will be less likely to steal. No theft data were available to assess personality-based integrity tests.

Overt Integrity Tests & Theft



Faking and Coaching on Integrity Tests

Although overt and personality-based integrity tests do a very good job of helping companies hire people of higher integrity, it is possible to improve scores on these tests through coaching and faking. Job applicants can be coached by explaining the underlying rationale of an integrity test to them or by giving them specific directions for improving their integrity scores. Faking occurs when applicants simply try to "beat the test" or try to fake a good impression. Unfortunately for the companies that use integrity tests, both strategies work. On average, coaching can improve scores on overt integrity tests by an astounding 1.5 standard deviations and on personality-based integrity tests by a meaningful .36 standard deviations. This would be the equivalent of increasing your total SAT score by 150 and 36 points, respectively (the SAT has a mean of 500 and a standard deviation of 100). Likewise, on average, faking can improve scores on overt integrity tests by an impressive 1.02 standard deviations and on personality-based integrity tests by a meaningful .59 standard deviations. Again, this would be the equivalent of increasing your SAT score by 102 and 59 points, respectively. Companies that want to avoid coaching and faking effects should maintain tight security over integrity tests so that applicants have little information regarding them, periodically check the validity of the tests to make sure they're accurately predicting workplace deviance and job performance, or periodically switch tests if they suspect that test security has been compromised.[48]

One of the characteristics we value highly is the ability to make and keep commitments both to ourselves and to others. People who can make and keep commitments gain respect. They are known for their integrity, and it is the same with businesses.

Here is a list of commitments each of us needs to incorporate into our daily conduct of business:

- We will treat our fellow employees with honesty, respect, and dignity.
- We will strive to conduct our activities to protect the safety and health of our fellow employees.
- We will conduct ourselves as responsible and responsive corporate citizens in our communities.
- We will respect the environment and exercise good judgment concerning the impact of our activities on the environment.
- We will maintain high levels of legal and ethical conduct while pursuing our growth and earnings objectives.
- We will deal honestly and fairly with our customers and be responsive to their needs and requirements.
- We will strive to maintain the highest standards of excellence in the quality of the products and services we provide to our customers.
- We will strive to be the best customer we can be to our suppliers. We will emphasize fairness and integrity in all dealings with suppliers.
- We will respect and obey the law.

Exhibit 4.5
Ethical Code of Conduct for Portland General Electric

Source: "Law and Ethics: How We Do Business, A Compliance Guide for Portland General Electric Employees," Portland General Electric, [Online] available at http://www.portlandgeneral.com/about_pge/jobs/pdf/how_we_do_business.pdf, 20 March 2003.

about the company's core values, specific ethical business practices, and much more.

Second, in addition to having an ethics code with general guidelines like "do unto others as you would have others do unto you," management must also develop practical ethical standards and procedures specific to the company's line of business. Visitors to Nortel's Internet site can instantly access references to very specific ethical standards on topics ranging from bribes and kickbacks to expense vouchers and illegal copying of software. For example, most businesspeople believe that it is wrong to take bribes or other gifts from a company that wants your business. Therefore, one of Nortel's ethical guidelines is "We do not accept or offer any form of bribe, kickback, improper or illegal inducement—even where the practice is widely considered a way of doing business."[49] And just to be sure there's no confusion over what constitutes, say, a gift, the guidelines are even more specific: "When we do give or receive gifts, they should be modest. T-shirts, mugs, and pens that carry the company logo are examples of gifts we would normally give or receive. If you give a gift, you must accurately account for it in your expense claim or department records."[50]

Specific codes of ethics such as this make it much easier for employees to decide what to do when they want to do the "right thing."

5.3 Ethics Training

The first objective of ethics training is to develop employees' awareness of ethics.[51] This means helping employees recognize which issues are ethical issues and then avoid rationalizing unethical behavior by thinking, "This isn't really illegal or immoral" or "No one will ever find out." Several companies have created board games to improve awareness of ethical issues.[52] Citigroup has a game called "The Work Ethic," in which players win or lose points depending on their answers to legal, regulatory, policy, and judgment questions. Defense contractor Lockheed Martin has created "The Ethics Challenge," which every employee, including the CEO, must play at least once a year. Lockheed workers

sit around a table, roll dice, and then move their tokens ahead when they answer ethics questions correctly. Here's a sample question from the game:

A kickback may be in the form of:

A. *Cash*
B. *Gift to a family member*
C. *Donation to a charity at your request*
D. *All of these (the correct answer)*

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In an effort to ensure that employees know how to act in an ethical manner, many companies have a code of ethics or ethical guidelines. Companies from Boeing to Tower Records use games to practice ethical decision making. There is even a game based on the popular cartoon character, Dilbert.

The game has been very popular, except for one year when it was revised so that it did not indicate which answers were right. Brian Sears, an ethics officer for Lockheed's aeronautics division, commented that engineers, who are used to "correct answers," wanted more guidance. Said Sears, "They had a hard time with it," so the game was changed again to offer "preferred answers."[53] BellSouth's "Ethics Scenarios" game, which is similar, is available online. To play it, go to **http://ethics.bellsouth.com/** and search for "Ethics Scenarios Game."

The second objective for ethics training programs is to achieve credibility with employees. Not surprisingly, employees can be highly suspicious of management's reasons for offering ethics training. Some companies have hurt the credibility of their ethics programs by having outside instructors and consultants conduct the classes.[54] Employees often complain that outside instructors and consultants are teaching theory that has nothing to do with their jobs and the "real world." This is why Boeing has a vice president of ethics who employs 55 people to teach Boeing's 194,000 employees the difference between right and wrong in the aerospace industry.[55] Ethics training becomes even more credible when top managers teach the initial ethics classes to their subordinates, who in turn teach their subordinates. In time, most managers will have taken and taught the ethics classes, thereby pushing ethics training and principles throughout the entire company.[56] Unfortunately, though, 25 percent of large companies don't require top managers to attend, much less teach, ethics training.[57]

The third objective of ethics training is to teach employees a practical model of ethical decision making. A basic model should help them think about the consequences their choices will have on others and consider how they will choose between different solutions. Exhibit 4.6 presents a basic model of ethical decision making.

5.4 Ethical Climate

In study after study, when researchers ask, "What is the most important influence on your ethical behavior at work?" the answer comes back, "My manager." The first step in establishing an ethical climate is for managers, especially top managers, to act ethically themselves. The National Business Ethics Survey found that unethical misconduct occurred in just 15 percent of the organizations where top managers talked about the importance of ethics, kept their promises to others, and modeled ethical behavior themselves. By contrast, unethical misconduct occurred in 56 percent of the organizations in which top management only talked about the importance of ethics, but did nothing else.[58]

A second step in establishing an ethical climate is for top management to be active in and committed to the company ethics program.[59] Top managers who

Exhibit 4.6
A Basic Model of Ethical Decision Making

1. **Identify the problem.** What makes it an ethical problem? Think in terms of rights, obligations, fairness, relationships, and integrity. How would you define the problem if you stood on the other side of the fence?
2. **Identify the constituents**. Who has been hurt? Who could be hurt? Who could be helped? Are they willing players, or are they victims? Can you negotiate with them?
3. **Diagnose the situation.** How did it happen in the first place? What could have prevented it? Is it going to get worse or better? Can the damage now be undone?
4. **Analyze your options**. Imagine the range of possibilities. Limit yourself to the two or three most manageable. What are the likely outcomes of each? What are the likely costs? Look to the company mission statement or code of ethics for guidance.
5. **Make your choice**. What is your intention in making this decision? How does it compare with the probable results? Can you discuss the problem with the affected parties before you act? Could you disclose without qualm your decision to your boss, the CEO, the board of directors, your family, or society as a whole?
6. **Act.** Do what you have to do. Don't be afraid to admit errors. Be as bold in confronting a problem as you were in causing it.

Source: L. A. Berger, "Train All Employees to Solve Ethical Dilemmas," *Best's Review—Life-Health Insurance Edition* 95 (1995): 70–80.

consistently talk about the importance of ethics and back up that talk by participating in their companies' ethics programs send the clear message that ethics matter. Business writer Dayton Fandray says, "You can have ethics offices and officers and training programs and reporting systems, but if the CEO doesn't seem to care, it's all just a sham. It's not surprising to find that the companies that really do care about ethics make a point of including senior management in all of their ethics and compliance programs."[60]

A third step is to put in place a reporting system that encourages managers and employees to report potential ethics violations. **Whistleblowing,** that is, reporting others' ethics violations, is a difficult step for most people to take.[61] Potential whistleblowers often fear that they, and not the ethics violators, will be punished.[62] Managers who have been interviewed about whistleblowing have said, "In every organization, someone's been screwed for standing up." "If anything, I figured that by taking a strong stand I might get myself in trouble. People might look at me as a 'goody two shoes.' Someone might try to force me out." This is exactly what happened to Sandy Baratta, who used to be a vice president at Oracle, which makes database software used by most large companies. Baratta was fired, she alleges, for complaining about Oracle's treatment of women and unethical business practices. Under California's whistleblower protection laws, a jury awarded her \$2.6 million in damages.[63]

whistlebowling
Reporting others' ethics violations to management or legal authorities.

Today, many federal and state laws protect the rights of whistleblowers (see **http://www.whistleblowers.org** for more information). In particular, the Sarbanes-Oxley Act of 2002 (see **http://www.aicpa.org/info/sarbanes_oxley_summary.htm**) made it a serious crime to retaliate in any way against corporate whistleblowers in publicly owned companies. Managers who punish whistleblowers can be imprisoned for up to 10 years.

Some companies, including defense contractor Northrup Grumman, have made it easier for whistleblowers to report possible violations by establishing anonymous, toll-free corporate ethics hot lines. Nortel Networks even publicizes which of its ethics hot lines don't have caller ID (so they can't identify the caller's phone number). The Sarbanes-Oxley Act also requires all publicly held companies to establish anonymous hot lines to encourage reporting of unethical and illegal behaviors.

The factor that does the most to discourage whistleblowers from reporting problems, however, is lack of company action on their complaints.[64] Thus, the final step in developing an ethical climate is for management to fairly and consistently punish those who violate the company's code of ethics. For example,

when an anonymous caller used hospital chain Columbia\HCA's toll-free ethics phone line to report that a supply clerk was stealing medical equipment and selling it online at eBay.com the information was forwarded to company investigators who then bought the equipment on eBay. Being a good eBay seller, the supply clerk quickly shipped the stolen goods directly from her home. When confronted with the stolen goods, she confessed and was immediately fired.[65] Amazingly, though, not all companies fire ethics violators. In fact, 8 percent of surveyed companies admit that they'd promote top performers even if they violated ethical standards. [66]

Review 5: Practical Steps to Ethical Decision Making

Employers can increase their chances of hiring ethical employees by administering overt integrity tests and personality-based integrity tests to all job applicants. Most large companies now have corporate codes of ethics. To affect ethical decision making, these codes must be known both inside and outside the organization. In addition to offering general rules, ethics codes must also provide specific, practical advice. Ethics training seeks to increase employees' awareness of ethical issues, make ethics a serious, credible factor in organizational decisions, and teach employees a practical model of ethical decision making. The most important factors in creating an ethical business climate are the personal examples set by company managers, involvement of management in the company ethics program, a reporting system that encourages whistleblowers to report potential ethics violations, and fair but consistent punishment of violators.

What Is Social Responsibility?

Social responsibility is a business's obligation to pursue policies, make decisions, and take actions that benefit society.[67] Unfortunately, because there are strong disagreements over to whom and for what in society organizations are responsible, it can be difficult for managers to know what is or will be perceived as socially responsible corporate behavior. For example, Procter & Gamble (P&G) no longer uses animals, such as rats and rabbits, to test the safety of its cosmetics, shampoos, detergents, cleansers, and paper goods, although it continues to use animals to test the safety of new drugs and healthcare products.[68] Nonetheless, P&G still draws protests from PETA (People for the Ethical Treatment of Animals) in the form of PETA's "Died" advertising campaign, which is based on P&G's best-selling laundry detergent Tide. The "Died" ad shows a woman holding a box of "Died" detergent with the words "Thousands of Animals Died for Your Laundry" on the box. PETA is urging consumers to boycott all P&G products until the company ends all forms of animal testing. In response, P&G argues that eliminating animal testing altogether would be socially irresponsible because testing is critical to producing safe products for its customers. The company's Web site states: "We have to know, for example, that a product will not cause injury if a child accidentally swallows it or gets it into their eyes."[69] Furthermore, in the event that a product liability lawsuit is filed against the company, its best legal defense would be the scientific testing it performs on rats and rabbits.[70] Finally, P&G points out that it has been actively developing alternatives to animal testing. Dr. Martin Stephens, vice president for animal research issues at the U.S. Humane Society, says,

social responsibility
A business's obligation to pursue policies, make decisions, and take actions thaat benefit society.

There is no single definitive understanding of social responsibility, as the dispute between P&G and PETA proves. Many argue that P&G is being socially responsible by continuing limited animal testing for health-care products to ensure the safety of future customers, including babies and children. Others, like PETA, argue that P&G is acting irresponsibly by continuing animal testing at all.

©PEOPLE FOR THE ETHICAL TREATMENT OF ANIMALS (PETA)

"P&G has perhaps done more than any other corporation to speed the development and acceptance of alternative test methods."[71]

Is P&G obligated, as PETA believes, to eliminate all animal testing? Or, by minimizing but not eliminating animal testing has P&G achieved a reasonable balance that still allows it to make sure its products are safe? In the end, are P&G's actions regarding animal testing socially responsible or irresponsible?

After reading the next four sections, you should be able to explain

6 to whom organizations are socially responsible.
7 for what organizations are socially responsible.
8 how organizations can choose to respond to societal demands for social responbility.
9 whether social responsibility hurts or helps an organization's economic performance.

6 TO WHOM ARE ORGANIZATIONS SOCIALLY RESPONSIBLE?

shareholder model
A view of social responsibility that holds that an organization's overriding goal should be profit maximization for the benefit of shareholders.

There are two perspectives as to whom organizations are socially responsible: the shareholder model and the stakeholder model. According to Nobel Prize–winning economist Milton Friedman, the only social responsibility that organizations have is to satisfy their owners, that is, company shareholders. This view—called the **shareholder model**—holds that the only social responsibility that businesses have is to maximize profits. By maximizing profit, the firm maximizes shareholder wealth and satisfaction. More specifically, as profits rise, the company stock owned by shareholders generally increases in value. For example, over the last decade, Dell, Inc., founded by Michael Dell in his dorm room at the University of Texas, has given its shareholders an average annual return of 58.8 percent, by far the highest among *Fortune* 500 companies.[72] If you had invested $1,000 in Dell 10 years ago, that money would now be worth $101,978![73] (This figure does not include stock splits. When stock prices get high, companies split the stock. For example, if a stock costs $200, and the company splits the stock, one $200 share of stock becomes two shares of stock, each worth $100.)

Friedman argues that it is socially irresponsible for companies to divert time, money, and attention from maximizing profits to social causes and charitable organizations. The first problem he sees is that organizations cannot act effectively as moral agents for all company shareholders. Although shareholders are likely to agree on investment issues concerning a company, it's highly unlikely that they have common views on what social causes a company should or should not support. For example, corporate donations to the Boy Scouts dropped significantly after the U.S. Supreme Court ruled 5–4 that the Boy Scouts do not have to accept homosexual troop leaders. J. P. Morgan Chase, Levi-Strauss & Company, Textron, and Wells Fargo have all stopped donating to the Boy Scouts. Tom Unger of Wells Fargo explained, "The Boy Scouts are as American as apple pie, but this was an easy decision to make. We really have to, as a company, return to what our core vision and values are, and that's to not discriminate." Yet, while corporate donations are down, overall donations to the Boy Scouts have risen.[74] Rather than act as moral agents, Friedman argues, companies should maximize profits for shareholders. Shareholders can then use their time and increased wealth to contribute to the social causes, charities, or institutions they want, rather than those that companies want.

The second major problem, according to Friedman, is that the time, money, and attention diverted to social causes undermine market efficiency.[75] In competitive markets, companies compete for raw materials, talented workers, customers, and investment funds. A company that spends money on social causes will have less money to purchase quality materials or to hire talented workers who can produce a valuable

product at a good price. If customers find the company's product less desirable, its sales and profits will fall. If profits fall, the company's stock price will decline, and the company will have difficulty attracting investment funds that could be used to fund long-term growth. In the end, Friedman argues, diverting the firm's money, time, and resources to social causes hurts customers, suppliers, employees, and shareholders.

By contrast, under the **stakeholder model,** management's most important responsibility is the firm's long-term survival (not just maximizing profits), which is achieved by satisfying the interests of multiple corporate stakeholders (not just shareholders).[76] **Stakeholders** are persons or groups with a legitimate interest in a company.[77] Since stakeholders are interested in and affected by the organization's actions, they have a "stake" in what those actions are. Consequently, stakeholder groups may try to influence the firm to act in their own interests. Exhibit 4.7 shows the various stakeholder groups that the organization must satisfy to assure its long-term survival.

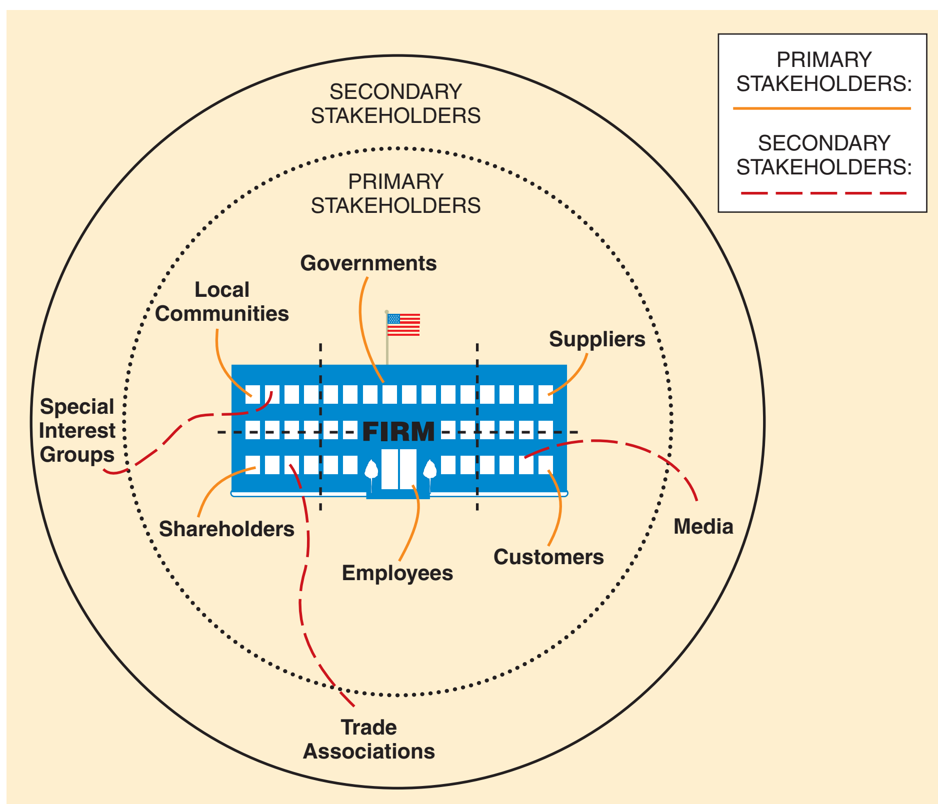

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Exhibit 4.7
Stakeholder Model of Corporate Social Responsibility

Being responsible to multiple stakeholders raises two basic questions. First, how does a company identify organizational stakeholders? Second, how does a company balance the needs of different stakeholders? Distinguishing between primary and secondary stakeholders can answer these questions.[78]

Some stakeholders are more important to the firm's survival than others. **Primary stakeholders** are groups on which the organization depends for its long-term survival; they include shareholders, employees, customers, suppliers, governments, and local communities. So, when managers are struggling to balance the needs of different stakeholders, the stakeholder model suggests that the needs of primary stakeholders take precedence over the needs of secondary stakeholders. In theory, no primary stakeholder group is more or less important than another, because all are said to be critical to the organization's long-term success and survival. In practice, though, CEOs typically give somewhat higher priority to shareholders, employees, and customers than to suppliers, governments, and local communities.[79] Exhibit 4.8 lists issues that organizations will probably have to address to keep their primary stakeholders satisfied.

Addressing the concerns of primary stakeholders is important because if a stakeholder group becomes dissatisfied and terminates its relationship with the company, the company could be seriously harmed or go out of business. With 4,300 drugstores, Walgreen's was one of Kodak's key customers (i.e., stakeholders), selling two billion photo prints a year using Kodak paper and photo minilab machines. But with the growing popularity of digital photography, Kodak lost billions in sales because its film and film chemicals were no longer needed

stakeholder model
A theory of corporate responsibility that holds that management's most important responsibility, long-term survival, is achieved by satisfying the interests of multiple corporate stakeholders.

stakeholders
Persons or groups with a "stake" or legitimate interest in a company's actions.

primary stakeholder
Any group on which an organization relies for its long-term survival.

Company	Company history, industry background, organization structure, economic performance, competitive environment, mission or purpose, corporate codes, stakeholder and social issues management systems.
Employees	Benefits, compensation and rewards, training and development, career planning, employee assistance programs, health promotion, absenteeism and turnover, leaves of absence, relationships with unions, dismissal and appeal, termination, layoffs, retirement and termination counseling, employment equity and discrimination, women in management and on the board, day care and family accommodation, employee communication, occupational health and safety, and part-time, temporary, or contract employees.
Shareholders	Shareholder communications and complaints, shareholder advocacy, shareholder rights, and other shareholder issues.
Customers	Customer communications, product safety, customer complaints, special customer services, and other customer issues.
Suppliers	Relative power, general policy, and other supplier issues.
Public Stakeholders	Public health, safety, and protection, conservation of energy and materials, environmental assessment of capital projects, other environmental issues, public policy involvement, community relations, social investment and donations.

Source: M. B. E. Clarkson, "A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance," *Academy of Management Review* 20 (1995): 92–117.

Exhibit 4.8
Issues Important to Primary Stakeholders

to make photos. Hoping to recapture lost sales, Kodak started Ofoto (**http://www.ofoto.com**), a Web site where customers can upload digital pictures to the Internet, view them, and then order prints directly from Kodak. Walgreen executives saw that Ofoto would cut them out of the print business. So, even though it still had a $200 million agreement with Kodak, Walgreen installed 1,500 one-hour photo minilab machines (for traditional film prints) and digital photo kiosks (for digital film prints) from Fuji, Kodak's main competitor, and it plans to install 800 more. As Walgreen's Gordon Addington observed, "You have to earn your way in, but you also have to earn your way out . . . Kodak did its best to earn its way out."[80] Walgreen's switch to Fuji will cost Kodak $500 million a year in sales.

secondary stakeholder
Any group that can influence or be influenced by a company and can affect public perceptions about its socially responsible behavior.

Secondary stakeholders, such as the media and special interest groups, can influence or be influenced by the company. Unlike the primary stakeholders, however, they do not engage in regular transactions with the company and are not critical to its long-term survival. Consequently, meeting the needs of primary stakeholders is usually more important than meeting the needs of secondary stakeholders. Nevertheless, secondary stakeholders are still important because they can affect public perceptions and opinions about socially responsible behavior. For instance, after hundreds of protests by environmental groups at its stores and headquarters, Home Depot agreed to quit buying lumber products from "old growth" trees in endangered forests. Worried that the protests would hurt sales, Home Depot even began encouraging foreign governments and loggers to stop environmentally unsound practices. When its Indonesian wood supplier used slash-and-burn methods to harvest huge sections of rain forest, Home Depot cut its purchases of Indonesian lumber by 90 percent. Ron Jarvis, Home Depot's environmental global project manager, said, "We asked them to stop and they said they would continue."[81] As a result of these actions, the protests against Home Depot have stopped.

So, to whom are organizations socially responsible? Many commentators, especially economists and financial analysts, continue to argue that organizations are responsible only to shareholders. Increasingly, however, top managers have come to believe that they and their companies must be socially responsible to their stakeholders. This view has gained adherents since the Great Depression, when General Electric first identified shareholders, employees, customers, and the general public as its stakeholders. In 1947, Johnson & Johnson listed

customers, employees, managers, and shareholders as its stakeholders; and in 1950, Sears Roebuck announced that its most important stakeholders were "customers, employees, community, and stockholders."[82] Today, surveys show that as many as 80 percent of top-level managers believe that it is unethical to focus just on shareholders. Twenty-nine states have changed their laws to allow company boards of directors to consider the needs of employees, creditors, suppliers, customers, and local communities, as well as those of shareholders.[83] So, although there is not complete agreement, a majority of opinion makers would argue that companies must be socially responsible to their stakeholders.

Review 6: To Whom Are Organizations Socially Responsible?
Social responsibility is a business's obligation to benefit society. To whom are organizations socially responsible? According to the shareholder model, the only social responsibility that organizations have is to maximize shareholder wealth by maximizing company profits. According to the stakeholder model, companies must satisfy the needs and interests of multiple corporate stakeholders, not just shareholders. However, the needs of primary stakeholders, on which the organization relies for its existence, take precedence over those of secondary stakeholders.

7 FOR WHAT ARE ORGANIZATIONS SOCIALLY RESPONSIBLE?

If organizations are to be socially responsible to stakeholders, for what are they to be socially responsible? As Exhibit 4.9 illustrates, companies can best benefit their stakeholders by fulfilling their economic, legal, ethical, and discretionary

Exhibit 4.9
Social Responsibilities

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responsibilities.[84] Exhibit 4.9 indicates that economic and legal responsibilities play a larger part in a company's social responsibility than do ethical and discretionary responsibilities. However, the relative importance of these various responsibilities depends on society's expectations of corporate social responsibility at a particular point in time.[85] A century ago, society expected businesses to meet their economic and legal responsibilities and little else. Today, when society judges whether businesses are socially responsible, ethical and discretionary responsibilities are considerably more important than they used to be.

economic responsibility
The expectation that a company will make a profit by producing a valued product or service.

Historically, **economic responsibility,** making a profit by producing a product or service valued by society, has been a business's most basic social responsibility. Organizations that don't meet their financial and economic expectations come under tremendous pressure. For example, company boards are very, very quick these days to fire CEOs. Typically, all it takes is two or three bad quarters in a row. Thomas Neff, who heads the executive recruiting firm Spencer Stuart, says, "It used to be a couple of years [and not two or three quarters]." William Rollnick, who became acting chairman of Mattel after the company fired its previous CEO, says, "There's zero forgiveness. You screw up and you're dead."[86] Indeed, in both Europe and the United States, nearly one-third of all CEOs are fired because of their inability to successfully change their companies.[87] In fact, CEOs are three times more likely to be fired today than two decades ago.

legal responsibility
The expectation that a company will obey society's laws and regulations.

Legal responsibility is the expectation that companies will obey society's laws and regulations as they try to meet their economic responsibilities. For example, under the 1990 Clean Air Act, the smell of fresh baked bread is now illegal. Actually, it's not the smell that is illegal, but the ethanol that is emitted when bread is baked.[88] Although ethanol itself is nontoxic, it contributes to pollution by promoting the formation of the harmful atmospheric compound ozone. Consequently, to meet the law, large bakery plants spent millions to purchase catalytic oxidizers that remove ethanol emissions.[89]

ethical responsibility
The expectation that a company will not violate accepted principles of right and wrong when conducting its business.

Ethical responsibility is society's expectation that organizations will not violate accepted principles of right and wrong when conducting their business. For example, most people believe that KFC was wrong to run ads implying that its fried chicken was good for you and could help you lose weight. In one ad, one friend said to another, "Is that you? Man you look fantastic! What the heck you been doin'?" With his mouth full, the friend says, "Eatin' chicken." At voice-over then says, "So if you're watching carbs and going high protein, go KFC!" Pointing out that two fried chicken breasts contain 780 calories and 38 grams of fat, marketing consultant Marian Salzman said, "Marketers need to understand that you can't ask people to believe what isn't true."[90] Likewise, Michael Jacobsen, executive director of the Center for Science in the Public Interest said, "These ads take the truth, dip it in batter and deep-fry it. Colonel Sanders himself would have a hard time swallowing this ad campaign."[91] After running the ads for a brief time, KFC quietly pulled them. Because different stakeholders may disagree about what is or is not ethical, meeting ethical responsibilities is more difficult than meeting economic or legal responsibilities.

discretionary responsibilities
The expectation that a company will voluntarily serve a social role beyond its economic, legal, and ethical responsibilities.

Discretionary responsibilities pertain to the social roles that businesses play in society beyond their economic, legal, and ethical responsibilities. For example, dozens of companies support the fight against hunger at The Hunger Site, **http://www.thehungersite.com.** Each time someone clicks on the "donate free food" button (only one click per day per visitor), sponsors of The Hunger Site donate money to pay for food to be sent to Bosnia, Indonesia, Mozambique, or wherever people suffer from hunger. Thanks to the corporate sponsors and 284 million visitors' "clicks," almost 400 million cups (nearly 49 million pounds) of food have been distributed thus far.[92] Discretionary responsibilities such as these are voluntary. Companies are not considered unethical if they don't perform them. Today, however, corporate stakeholders expect companies to do much more than in the past to meet their discretionary responsibilities.

Review 7: For What Are Organizations Socially Responsible?

Companies can best benefit their stakeholders by fulfilling their economic, legal, ethical, and discretionary responsibilities. Being profitable, or meeting one's economic responsibility, is a business's most basic social responsibility. Legal responsibility consists of following a society's laws and regulations. Ethical responsibility means not violating accepted principles of right and wrong when doing business. Discretionary responsibilities are social responsibilities beyond basic economic, legal, and ethical responsibilities.

8 RESPONSES TO DEMANDS FOR SOCIAL RESPONSIBILITY

Social responsiveness is the strategy chosen by a company to respond to stakeholders' economic, legal, ethical, or discretionary expectations concerning social responsibility. A social responsibility problem exists whenever company actions do not meet stakeholder expectations. One model of social responsiveness, shown in Exhibit 4.10, identifies four strategies for responding to social responsibility problems: reactive, defensive, accommodative, and proactive. These strategies differ in the extent to which the company is willing to act to meet or exceed society's expectations.

social responsiveness
The strategy chosen by a company to respond to stakeholders' economic, legal, ethical, or discretionary expectations concerning social responsibility.

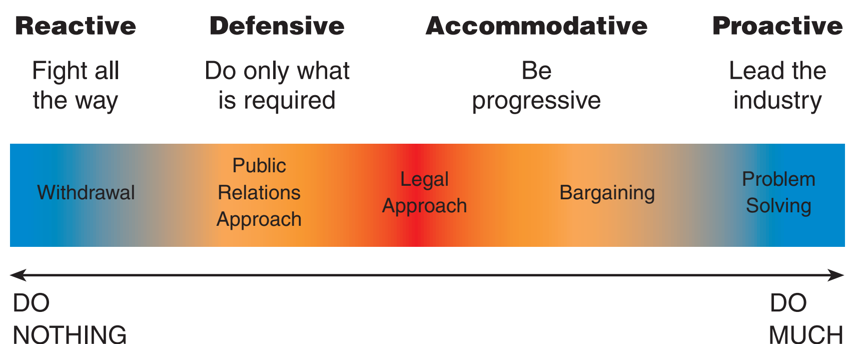
A company using a **reactive strategy** will do less than society expects. It may deny responsibility for a problem or fight any suggestions that the company should solve a problem. For example, in an attempt to treat all charitable institutions the same way, Target created a problem by banning Salvation Army bell ringers with their red kettles from soliciting donations in front of its stores during the holiday season. A Target spokesperson said that because other nonprofit organizations made similar requests, "It's becoming increasingly difficult to have an exception to our policy, so we decided we would have no exceptions." Customer Phyllis McElaney spoke for many when she said this about Target's ban: "It's a disgrace. The bell ringers remind you of the meaning of Christmas, that it's about love, caring, and giving."[93] The ban also meant that the Salvation Army would have to find a way to replace the $9 million that Target customers typically donated each year. By contrast, Wal-Mart again welcomed the Salvation Army's bell ringers to its stores and pledged to match its customers' donations up to a total of $1 million.[94]

reactive strategy
A social responsiveness strategy in which a company does less than society expects.

By contrast, a company using a **defensive strategy** would admit responsibility for a problem but would do the least required to meet societal expectations. Second Chance Body Armor makes bulletproof vests for police officers. According to company founder Richard Davis, tests indicated that the protective material in its vests deteriorated quickly under high temperatures and humidity, conditions under which they're typically used. As a result, Davis concluded that vests no more than two years old were potentially unsafe. Nevertheless, he couldn't convince the company's executive committee to recall the vests (an accomodative strategy). Davis says he told the committee that it had three choices: recall the vests and stop selling them, do nothing and wait "until a customer is injured or killed," or wait until the problem becomes public and "be forced to make excuses as to why we didn't recognize and correct the problem."[95] After two vests were pierced by bullets, killing one police officer and wounding another, Second Chance announced that it would fix or replace

defensive strategy
A social responsiveness strategy in which a company admits responsibility for a problem but does the least required to meet societal expectations.

Exhibit 4.10
Social Responsiveness



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130,000 potentially defective vests. Although the company finally admitted responsibility for the problem, management decided to do only the minimum of what society expects (fix a defective product). Second Chance, therefore, used a defensive strategy.

accommodative strategy
A social responsiveness strategy in which a company accepts responsibility for a problem and does all that society expects to solve that problem.

A company using an **accommodative strategy** will accept responsibility for a problem and take a progressive approach by doing all that could be expected to solve the problem. For example, when the Malden Mills textiles manufacturing plant burned to the ground just before Christmas, owner Aaron Feuerstein did not close the plant, lay off workers, and take a $300 million insurance settlement. Instead, he promised his 3,000 workers that they would still have jobs. As the plant was being rebuilt, Feuerstein met his weekly payroll of $1.5 million and covered the medical expenses of 33 injured workers. Despite the insurance settlement, the company had to borrow significant funds to rebuild the factory. Still, Feuerstein felt he did the "right thing." Feuerstein said, "It's the right thing to do because I think a business, yes, must maximize the profitability to the shareholder, but it means something more than that. There's a right way to treat employees, to treat them with respect, not as a pair of hands, and to give them the loyalty and trust that they expect and to treat them as human beings."[96]

proactive strategy
A social responsiveness strategy in which a company anticipates responsibility for a problem before it occurs and does more than society expects to address the problem.

Finally, a company using a **proactive strategy** will anticipate responsibility for a problem before it occurs, do more than expected to address the problem, and lead the industry in its approach. Honda Motors announced that it will include side-curtain air bags (that drop from the roof and protect passengers' heads) and front-side air bags (that come out of the door to protect against side-impact collisions) as standard equipment on all of its cars. Although more expensive car brands, such as Lexus and Volvo, already included these safety features, Honda is the first to make them standard on all models. On most other cars, these features are optional, meaning that customers must pay extra for them. Brian O'Neill of the Insurance Institute for Highway Safety says, "This is a very positive development because we have been troubled by more and more manufacturers going the option route when it comes to safety equipment." Charlie Baker, Honda's vice president for U.S. research and development, says, "We are convinced this is the right direction and will save lives."[97]

Review 8: Responses to Demands for Social Responsibility

Social responsiveness is a company's response to stakeholders' demands for socially responsible behavior. There are four social responsiveness strategies. When a company uses a reactive strategy, it denies responsibility for a problem. When it uses a defensive strategy, it takes responsibility for a problem but does the minimum required to solve it. When a company uses an accommodative strategy, it accepts responsibility for problems and does all that society expects to solve them. Finally, when a company uses a proactive strategy, it does much more than expected to solve social responsibility problems.

9 SOCIAL RESPONSIBILITY AND ECONOMIC PERFORMANCE

One question that managers often ask is, "Does it pay to be socially responsible?" Though understandable, asking whether social responsibility pays is a bit like asking if giving to your favorite charity will help you get a better-paying job. The obvious answer is no. There is not an inherent relationship between social responsibility and economic performance.[98] Nevertheless, this doesn't stop supporters of corporate social responsibility from claiming a positive relationship. For example, one study shows that the Domini 400 Social Index, which is a stock fund consisting of 400 socially responsible companies, has outperformed the Standard & Poor's 500 (an index of 500 stocks representative of the entire economy) by nearly 5 percent. At the same time, though, critics have plenty of facts to support their claim that social responsibility hurts economic

performance. For example, another study of 42 socially responsible mutual funds found that they underperformed the Standard & Poor's 500 by 8 percent.[99]

When it comes to social responsibility and economic performance, the first reality is that being socially responsible can sometimes cost a company significantly. Boston-based Timberland, which makes an assortment of work and outdoor clothing and shoes, gives each of its employees a paid (yes, paid) week off each year to help local charities. For example, vice president Bonnie Monahon took four days off to organize a bike-a-thon that raised $50,000 to fight childhood cancer. Monahon, whose younger brother died from cancer, says, "Not too many companies will allow you to do this kind of stuff."[100] Each year, Timberland also gives four workers six months of paid leave so that they can work full-time for nonprofit organizations. Finally, Timberland closes the entire company for one day each year so that all of its 5,400 workers can spend the day working on charitable projects sponsored by the company. This commitment to giving back doesn't come cheap. Indeed, closing down for one day costs Timberland $2 million. Furthermore, assuming that the average employee makes $50,000 a year, then the cost of giving each employee a paid week off to do charitable work is at least $5 million. That's $7 million a year that doesn't go to Timberland's bottom line.

The second reality of social responsibility and economic performance is that sometimes it does pay to be socially responsible. The mission of Worldwise, which sells environmentally friendly consumer products, is "to make environmentally responsible products that work as well or better, look as good or finer, and cost the same or less as the competition." For example, its water bowls for pets are made out of 125 recycled bottle caps. Likewise, its ecoplanter, which looks like a heavy, terra-cotta planter, is light, cheap, and made from 100 percent recycled plastic. In short, Worldwise doesn't think you should have to pay more for environmentally friendly products. In fact, its products are priced competitively enough to be sold in Wal-Mart, Target, and Home Depot. CEO Aaron Lamstein says, "Part of our concept is that we must have an incredibly focused mission that includes equally environmental and social issues and economic issues—that is, making sure that we have a really solid, healthy, financially secure business. You can't put one in front of the other. You can't be successful if you can't do both." The company, which is only 13 years old, has been profitable each of the last eight years.[101]

The third reality of social responsibility and economic performance is that although socially responsible behavior may be "the right thing to do," it does not guarantee profitability. Socially responsible companies experience the same ups and downs in economic performance that traditional businesses do. A good example is Ben & Jerry's Homemade Ice Cream. Ben & Jerry's started in 1978 when founders Ben Cohen and Jerry Greenfield sent away for a $5 course on how to make ice cream. Ben & Jerry's is as famous for its commitment to being socially responsible as for its super premium ice cream. Ben & Jerry's donates 7.5 percent of its pretax profits to support AIDS patients, the homeless, and the environment.[102] Moreover, customers buy Ben & Jerry's ice cream because it tastes great *and* because they want to support a socially responsible company. As Ben Cohen says, "We see ourselves as somewhat of a social service agency and somewhat of an ice cream company."[103] But, and this is a big but, despite its outstanding reputation as a socially responsible company, Ben & Jerry's consistently had financial troubles after going public (selling shares of stock to the public) a decade ago. In fact, its financial problems became so severe that Ben and Jerry sold the company to British-based Unilever.[104] Being socially responsible may be the "right thing to do," but it doesn't guarantee business success.

While Ben & Jerry's struggled, Seattle-based Starbucks Coffee, which also markets itself as a socially responsible company, grew from 11 to more than

8,337 gourmet coffee shops worldwide. (Starbucks had over 9,200 stores at the time of publication. By the time you read this, there are sure to be many more.) Starbucks pays its coffee shop workers much more than minimum wage, provides full health insurance coverage to anyone who works at least 20 hours a week, and gives employees with six or more months at the company the chance to participate in its stock options program. Besides taking good care of its employees, Starbucks also makes an annual six-figure charitable contribution to CARE, an international relief agency, for feeding, clothing, and educating the poor in the coffee-growing regions where it gets its coffee beans.[105] Workers from its thousands of stores worldwide are paid to volunteer in community service programs, such as Earth Day cleanups, regional AIDS walks, and local literacy organizations. For example, Starbucks workers in its 19 New Zealand stores donate about 100 hours of volunteer work each week. Aasha Murthy, Starbucks' general manager in New Zealand, says, "Any company can write out a check to a worthy cause, send it off, and think nothing more of it, but that isn't what Starbucks is about. We've got an enormous amount of talent, energy, and passion in our business and that comes from our staff. So we decided to donate their skills. We want Starbucks New Zealand to be a successful organization, not just a profitable one, and there's more than one dimension to success. We want to reach out to the community we're part of."[106]

In the end, if company management chooses a proactive or accommodative strategy toward social responsibility (rather than a defensive or reactive strategy), it should do so because it wants to benefit society and its corporate stakeholders, not because it expects a better financial return.

Review 9: Social Responsibility and Economic Performance

Does it pay to be socially responsible? Sometimes it costs, and sometimes it pays. Overall, there is no clear relationship between social responsibility and economic performance. Consequently, managers should not expect an economic return from socially responsible corporate activities. If your company chooses to practice a proactive or accommodative social responsibility strategy, it should do so to better society and not to improve its financial performance.

Key Terms

accommodative strategy, *124*
concentration of effect, *109*
conventional level of moral development, *109*
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Concept Check

1. How does the nature of management jobs create the possibility for ethical abuses?
2. Identify and describe the most common forms of workplace deviance.
3. What are the U.S. Sentencing Commission Guidelines? How do they both encourage ethical behavior and punish unethical behavior by businesses?
4. What influences ethical decision making?
5. What steps can managers take to improve ethical decision making?
6. Outline a basic model for ethical decision making.
7. Contrast the two models of social responsibility.
8. What are a company's total social responsibilities?
9. What choices does a company have when responding to demands for social responsibility?
10. Are socially responsible companies economically successful? In other words, does it pay to be socially responsible?

Self-Assessment

AN ETHICAL BASELINE

Most people think they are ethical, particularly when the right thing to do is seemingly obvious. But, as you read in the chapter, 75 percent of the respondents in a nationwide survey indicated that they had witnessed unethical behavior at work. In another study across multiple industries, 48 percent of the respondents admitted to actually committing an unethical or illegal act in the past year! And recall that with so many ways to approach ethical decision making, ethical choices are not always cut and dried. To give you an idea of your ethical perspective, take the 25-question survey found on page 615 in the Self-Assessment Appendix. The assessment will provide some baseline information as a foundation for your ethical development.

Management Decision

IMPLEMENTING SUSTAINABILITY

Your heart is racing as you stand in front of the gathering of customers.[107] Though not usually at a loss for words, you are having trouble answering their questions about the dangers of the materials and processes used by your company, Interface, Inc., a manufacturer of commercial-grade carpet and flooring. What's more, when you hesitate, they doggedly persist. And none of the questions are about discounts, lower prices, or inventory!

After you conclude the meeting, you jump into your car, drive back to the office, and convene a task force to respond to your customers' questions. But as soon as you assign the team its task, its members turn around and ask you to explain the company's environmental vision. "What vision?" you think to yourself. Desperately looking for inspiration, you happen upon a book by Paul Hawkens entitled *The Ecology of Commerce: A Declaration of Sustainability*. You open it, hoping to glean some good ideas that you can repackage for your task force (and your customers).

Interface generates billions of dollars in revenue each year, but in the process, it extracts over 1 billion pounds of raw materials from the earth. The company is also a profligate water user, requiring millions of gallons a year for its manufacturing process—not to mention the petroleum-based materials consumed and the greenhouse gases emitted during the process. Furthermore, your product, carpet, is not recyclable. When people install new carpet, the old carpet is dumped in a landfill.

But Interface is not alone. The entire carpet industry works to the same standards. Competitors like Shaw Walker, J & J Industries, and C&A Floorcoverings use the same amount of materials, have essentially the same manufacturing processes, and generate the same

amount of waste, all for products that can't be (or aren't) recycled.

After reading Hawkens's book, you realize that Interface will have to change. The question is "How much?" How much can Interface change its processes to be environmentally friendly without compromising the company's growth? Sustainability requires that products either be able to easily reenter nature without depositing toxins or be recyclable into new materials. For a manufacturing process to be sustainable, its net effect on the environment must be zero. That might mean using renewable resources, redesigning the process to eliminate all waste streams, or even creating a product that can be infinitely recycled. That's a lot to ask. Can you sustain the company if you adopt environmental sustainability as a vision?

Questions

1. Which level of social responsibility best describes the company's current operations?
2. What environmental vision do you communicate to your task force? In other words, what social responsiveness strategy will you adopt at Interface?
3. Can sustainability be economically viable for Interface? Defend your answer.

Management Team Decision

SPONSORSHIP OR SELLOUT

In the world of charitable organizations, the most grueling activity must certainly be fund-raising.[108] Although soliciting donations for popular causes can be easy, lesser known nonprofits, which do very important work, may have difficulty consistently raising enough money to function. Sometimes, corporate sponsorship is necessary to obtain adequate funding. The obvious plus to corporate sponsorship is the cash, and perhaps greater visibility and legitimacy in the community (depending, of course, on the reputation of the sponsor). But corporate sponsorship can also have drawbacks. Potential donors may think that the charity no longer needs additional funding or withdraw support because they perceive that the charity has "sold out" to corporate financial inducements.

In considering a possible sponsorship, managers of charitable organizations can find themselves facing an ethical dilemma. Consider the following situations:

- A charity dedicated to removing drunk drivers from the highways wants to hold a recognition dinner, but it is floundering financially. A beer company offers to sponsor the event for $25,000 as part of its efforts to promote responsible drinking.
- A health-care foundation that is putting on a benefit concert to raise money to fund research on respiratory diseases signs up a popular regional band. Unable to cover the costs for the band, concert hall, decorations, and publicity, the foundation entertains an offer from operators of a new and controversial waste incineration plant, who are willing to put up $50,000 to become sponsors of the event.

These situations are all too common in the world of nonprofit fund-raising, and getting these decisions right can often mean the difference between success and failure. To execute this management team decision, you will need to assemble a team of four to five students. Your management team will be working with the following scenario:

Community Action for the Poor (CAP) is a prominent charity that has been campaigning on behalf of low-income citizens in your area for 29 years. During the 1990s, your management team was able to lift the fund-raising for CAP to all-time highs. Fifteen years later, however, tight economic conditions have dried up donations. As CAP's management team is meeting to determine how and when to shut down operations, you receive a call from a local chain of check-cashing stores, FastCheck. FastCheck is a payday lending business that charges extremely high interest for the service of cashing personal checks for people who are broke. Typically, FastCheck targets people with low incomes.

You put the representative from FastCheck on the speaker phone so that the entire team can hear her. She proposes that FastCheck sponsor a spring festival to raise money for CAP. FastCheck will give CAP $20,000 to organize the festival (rent tents and games, arrange concessions, etc.), and CAP will receive all of the proceeds from the festival. In return, FastCheck wants to set up a booth at the festival and have its name and logo next to CAP's on any promotional materials, such as flyers, banners, and buttons. You thank the representative and turn off the phone. Turning to your team, you say, "So, do we take the money or not?"

You will be making a decision for or against corporate sponsorship for CAP by FastCheck. Before beginning the exercise, review Exhibit 4.6. You may even wish to print out the corresponding Worksheet 4.6 from Xtra! to use as a guide during the activity.

Questions

1. Rank the ethical intensity of the decision. Consider assigning a numerical value to each of the six factors listed on page 108, on a scale of, say, 1 to 5. Add the six values together and assess the sum against a possible 30 points.
2. What is your final decision? (As a team, examine the situation through the lens of each of the principles of ethical decision making; then make a decision.)
3. What role did the ethical intensity of the decision play in your ultimate decision?

Develop Your Career Potential

EXAMINING NONPROFITS

It is only the farmer who faithfully plants seeds in the Spring, who reaps a harvest in the Autumn.

—*B. C. Forbes, founder of* Forbes *magazine*

The purpose of these assignments is to develop your present and future capabilities as a manager. Since stakeholders increasingly expect companies to do more to fulfill their discretionary responsibilities, chances are you and your company will be expected to support your community in some significant way. To begin learning about community needs and corporate social responsibility, visit a local charity or nonprofit organization of your choosing, perhaps a hospital, the Red Cross, Goodwill, Planned Parenthood, a soup kitchen, or a homeless shelter. Talk to the people who work or volunteer there. Gather the information you need to answer the following questions.

Questions

1. What is the organization's mission?
2. Who does the organization serve, and how does it serve them?
3. What percentage of the organization's donations is used for administrative purposes? What percentage is used to directly benefit those served by the organization? What is the ratio of volunteers to paid workers?
4. What job or task does the "typical" volunteer perform for the organization? How much time does the typical volunteer give to the organization each week? For what types of jobs does the organization need more volunteers?
5. How does the business community support the organization?
6. Why are you interested in the activities of this organization?

Take Two

Biz Flix
Emperor's Club

William Hundert (Kevin Kline), a professor at Saint Benedict's preparatory school, believes in teaching his students about living a principled life as well as teaching them his beloved classical literature. Hundert's principled ways are challenged, however, by a new student, Sedgewick Bell (Emile Hirsch). Bell's behavior during the 73rd annual Julius Caesar competition causes Hundert to suspect that Bell leads a less than principled life.

Years later Hundert is the honored guest of his former student Sedgewick Bell (Joel Gretsch) at Bell's estate. Depaak Mehta (Rahul Khanna), Bell, and Louis Masoudi (Patrick Dempsey) compete in a reenactment of the Julius Caesar competition. Bell nearly wins the competition, but when Hundert notices that Bell is wearing an earpiece and is cheating with an assistant's help, he gives him a question he knows he cannot answer. Earlier in the film Hundert had suspected that the young Bell also cheated during the competition, but Headmaster Woodbridge (Edward Herrmann) had pressed him to ignore his suspicion.

This scene appears at the end of the film. It is an edited portion of the competition reenactment. Bell announced his candidacy for the U.S. Senate just before talking to Hundert in the bathroom. He carefully described his commitment to specific values that he would pursue if elected.

What to Watch for and Ask Yourself

1. Based on the clip, what ethical principles do you think most inform William Hundert's thinking?
2. Describe Sedgewick Bell's level of moral development.

Management Workplace
Eco-Natural Solutions, Sundance, and Diversified Chemical

Ethical business and social responsibility have a different meaning for every organization. Eco-Natural Solutions, an organic candy company, Sundance, the artistic venture associated with Robert Redford, and Diversified Chemical, a conglomerate based in Detroit, all have a different perspective on what it means to be socially responsible. Nevertheless they all agree that business and social responsibility do not have to be opposing forces. In fact, they view social responsibility as an impetus and rationale for starting, building, and growing a business enterprise.

What to Watch for and Ask Yourself:

1. Compare the way that Eco-Natural, Sundance, and Diversified Chemical view social responsibility.
2. For these companies, has social responsibility been profitable?