2 Business Ethics and Social Responsibility

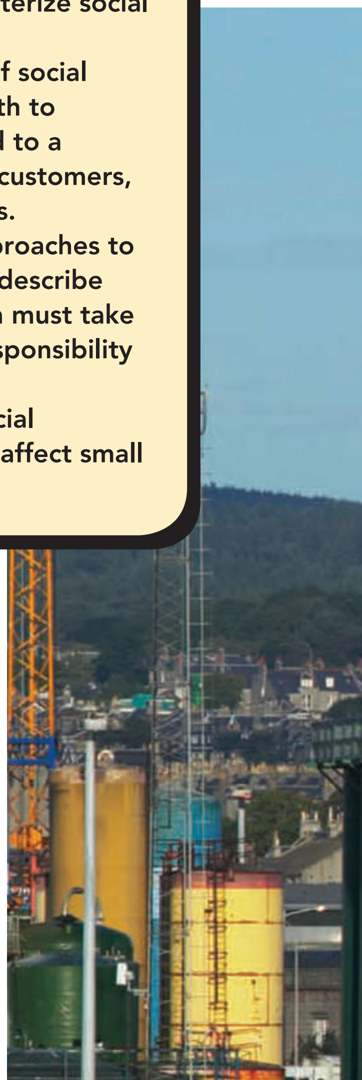
Under the Guise of Green

Oil companies aren't necessarily known for their environmentally responsible reputations. Exxon Mobil, for example, is remembered for the damage inflicted off the coast of Alaska when one of its tankers ran aground, and Royal Dutch Shell has been widely criticized for environmental damage resulting from its explorations in the Amazon basin. Another global energy giant, BP, however, has been making a concerted effort to create and market an environmentally friendly image. For the most part, this strategy has worked—ironically leading many to overlook the facts suggesting that BP is not entirely the environmentally responsible exception it claims to be.

For the past several years, BP has been charged with major environmental offenses almost annually. In 2000 the company was convicted of an environmental felony for failing to report that its subcontractor was dumping hazardous waste in Alaska. In 2005, BP allegedly ignored knowledge that its Texas City refinery was unsafe in a cost-cutting effort that led to an explosion, 15 deaths, and dozens more injuries. The following year, BP's negligence at its Prudhoe Bay oil field caused a 200,000-gallon oil spill and misdemeanor violation of the Clean Water Act. Then, in 2007, BP lobbied Indiana regulators for an exemption allowing it to increase its daily release of ammonia and sludge into Lake Michigan. Finally, the BP oil spill in the Gulf of Mexico in 2010, when the firm's *Deepwater Horizon* rig collapsed, led to a significant backlash against the firm and ultimately resulted in the ouster of CEO Tony Hayward.

After reading this chapter, you should be able to:

1. **Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.**
2. **Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.**
3. **Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.**
4. **Identify four general approaches to social responsibility and describe the four steps that a firm must take to implement a social responsibility program.**
5. **Explain how issues of social responsibility and ethics affect small business.**



Despite these misdeeds, however, BP still tries to maintain its image as a "green" company. The Natural Resource Defense Council has even praised it for being a leader in the industry's move toward renewable energy. Indeed, true to the tag line, "Beyond Petroleum," that accompanies its green logo, BP's 2010 Sustainability Report projects spending $8 billion over the next ten years on renewable energy products. Its website even offers a carbon footprint calculator that lets visitors see how their own choices affect the environment.

Indeed, even a cursory look at the BP website conveys an image of environmental awareness and social responsibility. The BP logo, an image that combines elements of a classic solar rendering and a flower, is clearly intended to convey an image of "nature friendliness," for example, and the color green is used prominently across the site. There are also links to descriptions of

WHAT'S IN IT FOR ME?

Business practices in the energy industry exemplify a growing issue in the business world today: the economic imperatives (real or imagined) facing managers versus pressures to function as good world citizens. Oil companies have to balance the pressure to earn profits for owners and help meet the growing demand for energy against the need to help protect and preserve the fragile natural environment. By understanding the material in this chapter, you'll be better able to assess ethical and socially responsible issues facing you as an employee and as a boss or business owner and understand the ethical and socially responsible actions of businesses you deal with as a consumer and as an investor.

In this chapter, we'll look at ethics and social responsibility—what they mean and how they apply to environmental issues and to a firm's relationships with customers, employees, and investors. Along the way, we look at general approaches to social responsibility, the steps businesses must take to implement social responsibility programs, and how issues of social responsibility and ethics affect small businesses. But first, we begin this chapter by discussing ethics in the workplace—individual, business, and managerial.

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David Robertson/Alamy

the firm's environment initiatives and policies and practices regarding "green" business practices.[1]

Our opening story continues on page 52.

1 Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.

Ethics in the Workplace

Just what is ethical behavior? **Ethics** are beliefs about what's right and wrong or good and bad. An individual's values and morals, plus the social context in which his or her behavior occurs, determine whether behavior is regarded as ethical or unethical. In other words, **ethical behavior** is behavior that conforms to individual beliefs and social norms about what's right and good. **Unethical behavior** is behavior that conforms to individual beliefs and social norms about what is defined as wrong and bad. **Business ethics** is a term often used to refer to ethical or unethical behaviors by employees in the context of their jobs.

Individual Ethics

Because ethics are based on both individual beliefs and social concepts, they vary from person to person, from situation to situation, and from culture to culture. Social standards are broad enough to support differences in beliefs. Without violating general standards, people may develop personal codes of ethics reflecting a wide range of attitudes and beliefs.

Thus, ethical and unethical behaviors are determined partly by the individual and partly by the culture. For instance, virtually everyone would agree that if you see someone drop $20, it would be ethical to return it to the owner. But there'll be less agreement if you find $20 and don't know who dropped it. Should you turn it in to the lost-and-found department? Or, since the rightful owner isn't likely to claim it, can you just keep it?

Ambiguity, the Law, and the Real World Societies generally adopt formal laws that reflect prevailing ethical standards or social norms. For example, because most people regard theft as unethical, we have laws against such behavior and ways of punishing those who steal. We try to make unambiguous laws, but interpreting and applying them can still lead to ethical ambiguities. Real-world situations can often be interpreted in different ways, and it isn't always easy to apply statutory standards to real-life behavior. For instance, during the aftermath of Hurricane Katrina, desperate survivors in New Orleans looted grocery stores for food. While few people criticized this behavior, such actions were technically against the law.

Unfortunately, the epidemic of scandals that dominated business news over the past decade shows how willing people can be to take advantage of potentially ambiguous situations—indeed, to create them. For example, Tyco sold itself to the smaller ADT Ltd. Because its new parent company was based in the tax haven of Bermuda, Tyco no longer had to pay U.S. taxes on its non-U.S. income. Tyco's subsidiaries in such tax-friendly nations soon doubled, and the company slashed its annual U.S. tax bill by $600 million. "Tyco," complained a U.S. congressman, "has raised tax avoidance to an art," but one tax expert replies that Tyco's schemes "are very consistent with the [U.S.] tax code."[2] Even in the face of blistering criticism and the indictment of its former CEO, Tyco retains its offshore ownership structure.[3]

Individual Values and Codes How should we deal with business behavior that we regard as unethical, especially when it's legally ambiguous? No doubt we have to start with the individuals in a business—its managers, employees, and other legal representatives. Each person's personal code of ethics is determined by a combination of factors. We start to form ethical standards as children in response to our perceptions of the behavior of parents and other adults. Soon, we enter school, where we're influenced by peers, and as we grow into adulthood, experience shapes our lives and contributes to our ethical beliefs and our behavior. We also develop values

Gain hands-on experience through an interactive, real-world scenario. This chapter's simulation entitled Ethics & Social Responsibility is located at **www.mybizlab.com.**

MANAGING IN TURBULENT TIMES

Just When They Need It Most

In many ways, it's a pretty bitter irony. Volunteer organizations and charitable enterprises like the American Red Cross, the Salvation Army, and the United Way do much good in our society. When emergency strikes, the Red Cross is usually first on the scene. The Salvation Army provides much-needed relief for people without means. And the United Way supports a wide array of charities and social programs.

All three of these organizations depend on contributions from people and businesses to provide the services people often need. Salvation Army volunteers, for example, ring holiday bells outside retailers and collect spare change in red kettles. The United Way helps organize giving campaigns within business and government organizations. And the Red Cross calls on the assistance of more than a million volunteers each year.

But when the economy takes a downturn, as it did from 2008 through 2010, charitable giving almost always goes down. Most individuals and businesses, for example, find that they have less discretionary income and so have to reduce their spending. And giving to help others is one area that gets cut back. Indeed, the Red Cross, Salvation Army, and United Way all reported a drop in income in all three years of the recession. While a small increase is forecast for 2011, it will still be well below the pre-recession levels of 2006 and 2007.

Ironically, it's in these very times that more people than ever need just the kind of assistance these organizations provide. When people lose their jobs, when their savings disappear, when they can't make their mortgage payment or when

Dorothy Alexander/Alamy

second jobs during holiday periods are reduced, people need to be able to turn to the Salvation Army, for example, to help feed their children.

Fortunately, the leadership at these organizations anticipates difficult times and has plans in place that allow them to dip into reserves and cut back on their own expenses as necessary. As a result, at least for the time being, they have been able to provide the same basic levels of support as in past years. Hopefully, economic conditions will begin to improve soon, and they can begin to once again think about expanding services and providing more support to those who need it most.

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and morals that contribute to ethical standards. If you put financial gain at the top of your priority list, you may develop a code of ethics that supports the pursuit of material comfort. If you set family and friends as a priority, you'll no doubt adopt different standards.

Business and Managerial Ethics

Managerial ethics are the standards of behavior that guide individual managers in their work.[4] Although your ethics can affect your work in any number of ways, it's helpful to classify them in terms of three broad categories.

Behavior toward Employees This category covers such matters as hiring and firing, wages and working conditions, and privacy and respect. Ethical and legal guidelines suggest that hiring and firing decisions should be based solely on the

Ethics beliefs about what is right and wrong or good and bad in actions that affect others

Ethical Behavior behavior conforming to generally accepted social norms concerning beneficial and harmful actions

Unethical Behavior behavior that does not conform to generally accepted social norms concerning beneficial and harmful actions

Business Ethics ethical or unethical behaviors by employees in the context of their jobs

Managerial Ethics standards of behavior that guide individual managers in their work ability to perform a job. A manager who discriminates against African Americans or women in hiring exhibits both unethical and illegal behavior. But what about the manager who hires a friend or relative when someone else might be more qualified? Although such decisions may not be illegal, they may be objectionable on ethical grounds.

Wages and working conditions, while regulated by law, are also areas for controversy. Consider a manager who pays a worker less than he deserves because the manager knows that the employee can't afford to quit or risk his job by complaining. While some people will see the behavior as unethical, others will see it as smart business. Cases such as these are hard enough to judge, but consider the behavior of Enron management toward company employees. It encouraged employees to invest retirement funds in company stock and then, when financial problems began to surface, refused to permit them to sell the stock (even though top officials were allowed to sell). Ultimately, the firm's demise cost thousands of these very employees to lose their jobs and much of their pensions.

Behavior toward the Organization Ethical issues also arise from employee behavior toward employers, especially in such areas as conflict of interest, confidentiality, and honesty. A *conflict of interest* occurs when an activity may benefit the individual to the detriment of his or her employer. Most companies have policies that forbid buyers from accepting gifts from suppliers since such gifts might be construed as a bribe or an attempt to induce favoritism. Businesses in highly competitive industries—software and fashion apparel, for example—have safeguards against designers selling company secrets to competitors.

Relatively common problems in the general area of honesty include such behavior as stealing supplies, padding expense accounts, and using a business phone to make personal long-distance calls. Most employees are honest, but many organizations are nevertheless vigilant. Again, Enron is a good example of employees' unethical behavior toward an organization: Top managers not only misused corporate assets, but they often committed the company to risky ventures in order to further their own personal interests.

Behavior toward Other Economic Agents Ethics also comes into play in the relationship of a business and its employees with so-called *primary agents of interest*—mainly customers, competitors, stockholders, suppliers, dealers, and unions. In dealing with such agents, there is room for ethical ambiguity in just about every activity—advertising, financial disclosure, ordering and purchasing, bargaining and negotiation, and other business relationships. Bernard Madoff's investment scams cost hundreds of his clients their life savings. He led them to believe their money was safe and that they were earning large returns when in fact their money was being hidden and used to support his own extravagant lifestyle. He used funds from new clients to pay returns to older clients. Madoff's scheme showed a blatant disregard for his investors.

From a more controversial perspective, businesses in the pharmaceutical industry are often criticized because of the rising prices of drugs. Critics argue that pharmaceutical companies reap huge profits at the expense of the average consumer. In its defense, the pharmaceutical industry argues that prices must be set high in order to cover the costs of research and development programs to develop new drugs. The solution to such problems seems obvious: Find the right balance between reasonable pricing and price gouging (responding to increased demand with overly steep price increases). But like so many questions involving ethics, there are significant differences of opinion about the proper balance.

Another problem is global variations in business practices. In many countries, bribes are a normal part of doing business. U.S. law, however, forbids bribes, even if rivals from other countries are paying them. A U.S. power-generating company recently lost a $320 million contract in the Middle East because it refused to pay bribes that a Japanese firm used to get the job. We'll discuss some of the ways in which social, cultural, and legal differences among nations affect international business in Chapter 4.

Assessing Ethical Behavior

What distinguishes ethical from unethical behavior is often subjective and subject to differences of opinion. So how can we decide whether a particular action or decision is ethical? The following three steps set a simplified course for applying ethical judgments to situations that may arise during the course of business activities:

1. Gather the relevant factual information.
2. Analyze the facts to determine the most appropriate moral values.
3. Make an ethical judgment based on the rightness or wrongness of the proposed activity or policy.

Unfortunately, the process doesn't always work as smoothly as these three steps suggest. What if the facts aren't clear-cut? What if there are no agreed-upon moral values? Nevertheless, a judgment and a decision must be made. Experts point out that, otherwise, trust is impossible. And trust is indispensable in any business transaction.

The Ethical Soft Shoe To bribe or not to bribe? That is the question. Well, actually, it's not really a question at all because the textbook answer is a non-negotiable no. No matter what business environment you're in, whatever culture or country you're in, the answer is always no.

In reality, it's a little more complicated than that. Business dealings that ignore the strict letter of the law happen all the time—more so in some countries than in others. Not just bribes, but offering or accepting incentives to get things done or extracting a personal favor or two. We do it all the time in the United States—using the power and influence of people we know to get things done the way we want. Granted, American business practices overseas are subject to certain constraints, such as those embodied in the Foreign Corrupt Practices Act.

Elsewhere, however, the answer to the question is not necessarily no. A hallmark of Brazilian business culture, for example, is a creative approach to problem solving known as *jeitinho*. *Jeitinho* means "to find a way." For Brazilians, there's always another way to get something done. If you need some kind of official document, for instance, you might set out on the straight and narrow path, determined to take all the proper bureaucratic steps to get it. Unfortunately, you may soon find yourself in a maze of rules and regulations from which it's impossible to extricate yourself. That's when you're most likely to resort to *jeitinho*—using personal connections, bending the rules, making a "contribution," or simply approaching the problem from a different angle.

The focus of *jeitinho* appears to be on the goal—in this case, obtaining a document. For Brazilians, however, it's really on *the process of accomplishing it*—on being willing and able to find another way, no matter what the obstacle. After all, every obstacle forces you in another direction, and during the process of negotiating the maze, you may be forced to change your original destination. *Jeitinho* almost never involves butting heads with authority. Rather, it's a complex dance that enables individuals to go around problems instead of having to go through them. It's a philosophy in which ends sometimes justify a complicated web of means.

Even if you're operating in a country (like Brazil) in which sidestepping the rules is business as usual, you don't *have* to do an ethical soft shoe. Many global companies have strict ethical guidelines for doing business, and the steps generally don't change just because you're dancing with a foreign partner. The key is understanding the culture of the host country—observing the way business is conducted and preparing yourself for any challenges—before you get out on the dance floor.

To assess more fully the ethics of specific behavior, we need a more complex perspective. Consider a common dilemma faced by managers with expense accounts. Companies routinely provide managers with accounts to cover work-related expenses—hotel bills, meals, rental cars, or taxis—when they're traveling on company business or entertaining clients for business purposes. They expect employees to claim only work-related expenses.

If a manager takes a client to dinner and spends \$100, submitting a \$100 reimbursement receipt for that dinner is accurate and appropriate. But suppose that this manager has a \$100 dinner the next night with a good friend for purely social purposes. Submitting that receipt for reimbursement would be unethical, but some managers rationalize that it's okay to submit a receipt for dinner with a friend. Perhaps they'll tell themselves that they're underpaid and just "recovering" income due to them.

Ethical *norms* also come into play in a case like this. Consider four such norms and the issues they entail:[5]

1 *Utility.* Does a particular act optimize the benefits to those who are affected by it? (That is, do all relevant parties receive "fair" benefits?)

2 *Rights.* Does it respect the rights of all individuals involved?

3 *Justice.* Is it consistent with what's fair?

4 *Caring.* Is it consistent with people's responsibilities to each other?

Figure 2.1 incorporates the consideration of these ethical norms into a model of ethical judgment making.

Now let's return to our case of the inflated expense account. While the utility norm acknowledges that the manager benefits from a padded account, others, such as coworkers and owners, don't. Most experts would also agree that the act doesn't respect the rights of others (such as investors, who have to foot the bill). Moreover, it's clearly unfair and compromises the manager's responsibilities to others. This particular act, then, appears to be clearly unethical.

Figure 2.1, however, also provides mechanisms for dealing with unique circumstances—those that apply only in limited situations. Suppose, for example, that our manager loses the receipt for the legitimate dinner but retains the receipt for the social dinner. Some people will now argue that it's okay to submit the illegitimate receipt because the manager is only doing so to get proper reimbursement. Others, however, will reply that submitting the alternative receipt is wrong under any circumstances. We won't pretend to arbitrate the case, and we will simply make the following point: Changes in most situations can make ethical issues either more or less clear-cut.

Company Practices and Business Ethics

As unethical and even illegal activities by both managers and employees plague more companies, many firms have taken additional steps to encourage ethical behavior in the workplace. Many set up codes of conduct and develop clear ethical positions on how the firm and its employees will conduct business. An increasingly controversial area regarding business ethics and company practices involves the privacy of e-mail and other communications that take place inside an organization. For instance, some companies monitor the web searches conducted by their employees; the appearance of certain key words may trigger a closer review of how an employee is using the company's computer network. While some companies argue they do this for business reasons, some employees claim that it violates their privacy.[5]

Perhaps the single most effective step that a company can take is to demonstrate top management support of ethical standards. This policy contributes to a corporate culture that values ethical standards and announces that the firm is as concerned with good citizenship as with profits. For example, when United Technologies (UT), a Connecticut-based industrial conglomerate, published its 21-page code of ethics, it also named a vice president for business practices to see that UT conducted business ethically and responsibly. With a detailed code of ethics and a senior official to enforce it, the firm sends a signal that it expects ethical conduct from its employees.

Two of the most common approaches to formalizing top management commitment to ethical business practices are *adopting written codes* and *instituting ethics programs*.

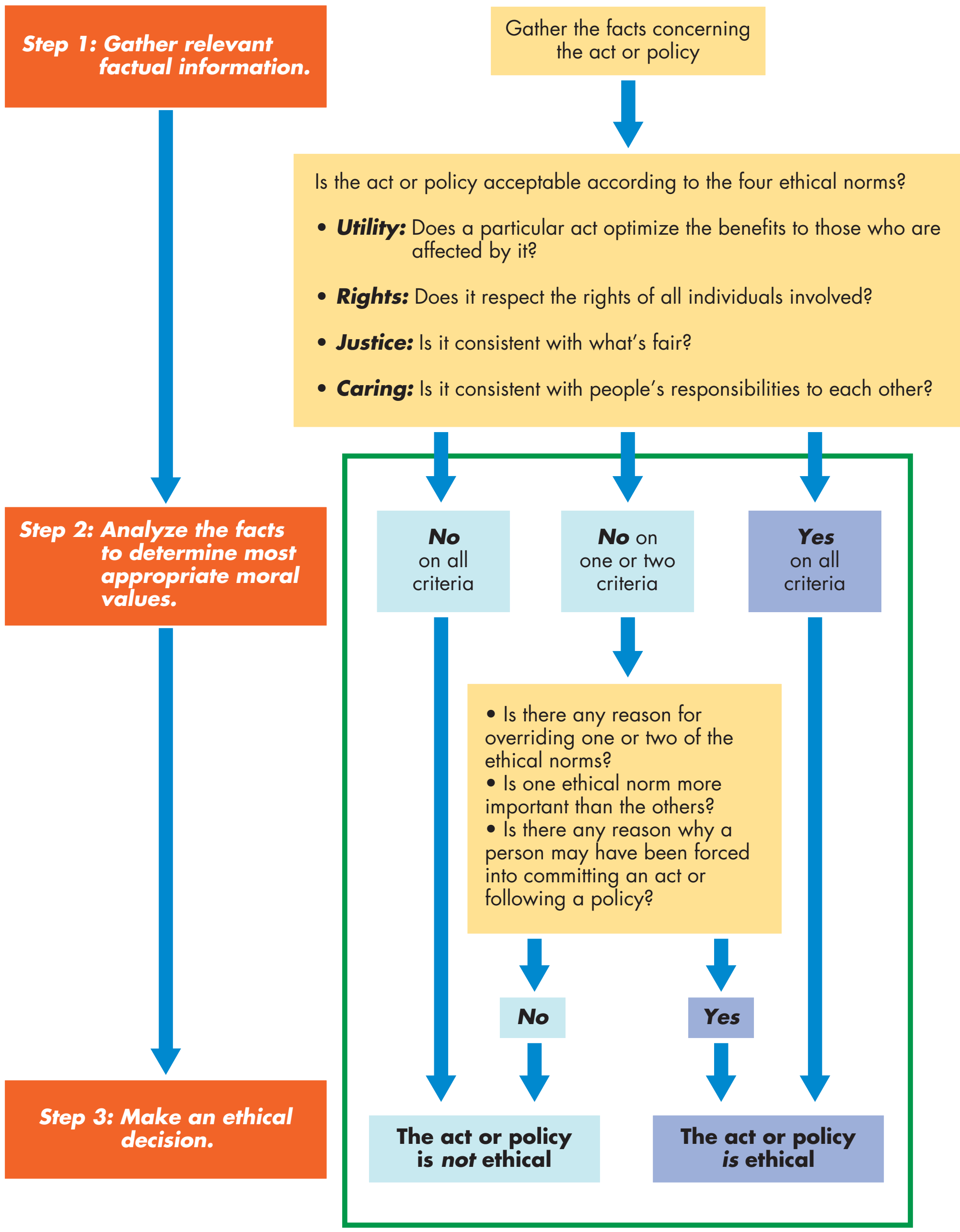


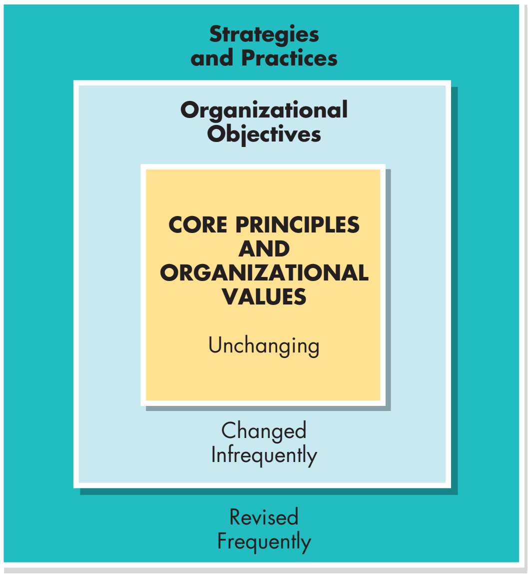
Figure 2.1 **Model of Ethical Judgment Making**
Source: Cavanagh, Gerald F. American Business Values: With International Perspectives, 4th edition, © 1998. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Adopting Written Codes Many companies, like UT, have written codes that formally announce their intent to do business in an ethical manner. The number of such companies has risen dramatically in the last three decades, and today almost all major corporations have written codes of ethics. Even Enron had a code of ethics, but managers must follow the code if it's going to work. On one occasion, Enron's board of directors voted to set aside the code in order to complete a deal that would violate it; after the deal was completed, they then voted to reinstate it!

Figure 2.2 illustrates the role that corporate ethics and values should play in corporate policy. You can use it to see how a good ethics statement might be structured. Basically, the figure suggests that although strategies and practices can change frequently and objectives can change occasionally, an organization's core principles and values should remain steadfast. Hewlett-Packard, for example, has had the same written code of ethics, called *The HP Way*, since 1957. Its essential elements are these:

- We have trust and respect for individuals.
- We focus on a high level of achievement and contribution.

Figure 2.2 **Core Principles and Organizational Values**
Source: Baron, David P. *Business and Its Environment*, 4th edition, © 2003. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ.



- We conduct our business with uncompromising integrity.
- We achieve our common objectives through teamwork.
- We encourage flexibility and innovation.

Instituting Ethics Programs Many examples suggest that ethical responses can be learned through experience. For instance, in a classic case several years ago, a corporate saboteur poisoned Tylenol capsules, resulting in the deaths of several consumers. Employees at Johnson & Johnson, the maker of Tylenol, all knew that, without waiting for instructions or a company directive, they should get to retailers' shelves and pull the product as quickly as possible. In retrospect, they reported simply knowing that this was what the company would want them to do. But can business ethics be taught, either in the workplace or in schools? Not surprisingly, business schools have become important players in the debate about ethics education. Most analysts agree that even though business schools must address the issue of ethics in the workplace, companies must take the chief responsibility for educating employees. In fact, more and more firms are doing so.

For example, both ExxonMobil and Boeing have major ethics programs. All managers must go through periodic ethics training to remind them of the importance of ethical decision making and to update them on the most current laws and regulations that might be particularly relevant to their firms. Interestingly, some of the more popular ethics training programs today are taught by former executives who have spent time in prison for their own ethical transgressions.[6] Others, such as Texas Instruments, have ethical hotlines—numbers that an employee can call, either to discuss the ethics of a particular problem or situation or to report unethical behavior or activities by others.

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

Social Responsibility

Ethics affect individual behavior in the workplace. **Social responsibility** is a related concept, but it refers to the overall way in which a business attempts to balance its commitments to relevant groups and individuals in its social environment. These groups and individuals are often called **organizational stakeholders**—those groups, individuals, and organizations that are directly affected by the practices of an organization and, therefore, have a stake in its performance.[6] Major corporate stakeholders are identified in Figure 2.3.

Figure 2.3 Major Corporate Stakeholders

The Stakeholder Model of Responsibility

Most companies that strive to be responsible to their stakeholders concentrate first and foremost on five main groups: *customers, employees, investors, suppliers*, and the *local communities* where they do business. They may then select other stakeholders that are particularly relevant or important to the organization and try to address their needs and expectations as well.

Customers Businesses that are responsible to their customers strive to treat them fairly and honestly. They also seek to charge fair prices, honor warranties, meet delivery commitments, and stand behind the quality of the products they sell. L.L.Bean, Lands' End, Dell Computer, and Johnson & Johnson are among those companies with excellent reputations in this area. In recent years, many small banks have increased their profits by offering much stronger customer service than the large national banks (such as Wells Fargo and Bank of America). For instance, some offer their customers free coffee and childcare while they're in the bank conducting business. According to Gordon Goetzmann, a leading financial services executive, "Big banks just don't get it" when it comes to understanding what customers want. As a result, for the past few years, small bank profits have been growing at a faster rate than profits at larger chain banks.

Social Responsibility the attempt of a business to balance its commitments to groups and individuals in its environment, including customers, other businesses, employees, investors, and local communities

Organizational Stakeholders those groups, individuals, and organizations that are directly affected by the practices of an organization and who therefore have a stake in its performance

ENTREPRENEURSHIP AND NEW VENTURES

The Electronic Equivalent of Paper Shredding

In virtually every major corporate scandal of the last few years, the best-laid plans of managerial miscreants have come unraveled, at least in part, when supposedly private e-mail surfaced as a key piece of evidence. At Citigroup, for example, analyst Jack Grubman changed stock recommendations in exchange for favors from CEO Sandy Weill and then sent an e-mail to confirm the arrangement. Investigators found that David Duncan, Arthur Andersen's head Enron auditor, had deleted incriminating e-mails shortly after the start of the Justice Department's investigation. After Tim Newington, an analyst for Credit Suisse First Boston, refused to give in to pressure to change a client's credit rating, an e-mail circulated on the problem of Newington's troublesome integrity: "Bigger issue," warned an upper manager, "is what to do about Newington in general. I'm not sure he's salvageable at this point."

Many corporations are nervous about the potential liability that employee e-mail may incur, but some entrepreneurs detect an opportunity in this same concern. A few software-development houses are busily designing programs to meet the needs of cautious corporate customers.

One such software house is Omniva Policy Systems. E-mail senders using Omniva's e-mail software can send encrypted messages and specify an expiration date after which encrypted e-mail messages can no longer be decrypted—the electronic equivalent of paper shredding. In addition, Omniva software can also prevent resending or printing, and users cannot unilaterally delete their own e-mail on their own initiative. In the event of a lawsuit or investigation, administrators can hit a "red button" that prevents all deletions.

"Our goal," says Omniva CEO Kumar Sreekanti, "is to keep the honest people honest.... We help organizations comply with regulations automatically so they don't have to rely on people to do it." Removing responsibility (and temptation) has become an increasingly popular strategy among executives who, like those at Metropolitan Life, the CIA, Eli Lilly, and many other organizations, are looking to e-mail-security systems to help them avoid the kind of exposure encountered by Citigroup, Arthur Andersen, and Credit Suisse.

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John Harrington/Black Star/Newscom

Employees Businesses that are socially responsible in their dealings with employees treat workers fairly, make them a part of the team, and respect their dignity and basic human needs. Organizations, such as The Container Store, Starbucks, Microsoft, FedEx, and American Express, have established strong reputations in this area. In addition, many of the same firms also go to great lengths to find, hire, train, and promote qualified minorities. Each year, *Fortune* magazine publishes lists of the "Best Companies to Work for in America" and the "Best Companies for Minorities." These lists attract more individuals who are eager to work for such highly regarded employers.

Investors To maintain a socially responsible stance toward investors, managers should follow proper accounting procedures, provide appropriate information to shareholders about financial performance, and manage the organization to protect shareholder rights and investments. These managers should be accurate and candid in assessing future growth and profitability, and they should avoid even the appearance of impropriety in such sensitive areas as insider trading, stock-price manipulation, and the withholding of financial data.

In 2002, for example, WorldCom, a giant telecommunications business and owner of MCI, announced that it had overstated previous years' earnings by as much as $6 billion. The SEC also announced that it was investigating the firm's accounting practices, and investors learned that the firm had lent CEO Bernard Ebbers $366 million that he might not be able to repay. On the heels of these problems, WorldCom's stock price dropped by more than 43 percent, and the company eventually had to seek bankruptcy protection as it attempted to dig out of the hole it had created for itself. As for Ebbers, he was subsequently indicted on several charges related to the accounting scandal. In 2005, he was found guilty and sentenced to 25 years in prison.

Suppliers Relations with suppliers should also be managed with care. For example, it might be easy for a large corporation to take advantage of suppliers by imposing unrealistic delivery schedules and reducing profit margins by constantly pushing for lower prices. Many firms now recognize the importance of mutually beneficial partnership arrangements with suppliers. Thus, they keep them informed about future plans, negotiate delivery schedules and prices that are acceptable to both firms, and so forth. Toyota and Amazon.com are among the firms acknowledged to have excellent relationships with their suppliers.

Local and International Communities Most businesses try to be socially responsible to their local communities. They may contribute to local programs, such as Little League baseball, get actively involved in charitable programs, such as the United Way, and strive to simply be good corporate citizens by minimizing their negative impact on communities. Target, for example, donates a percentage of sales to the local communities where it does business. The company says it gives over $3 million each week to neighborhoods, programs, and schools across the country. [7]

The stakeholder model can also provide some helpful insights into the conduct of managers in international business. In particular, to the extent that an organization acknowledges its commitments to its stakeholders, it should also recognize that it has multiple sets of stakeholders in each country where it does business. Daimler, for example, has investors not only in Germany but also in the United States, Japan, and other countries where its shares are publicly traded. It also has suppliers, employees, and customers in multiple countries, and its actions affect many different communities in dozens of different countries. Similarly, international businesses must also address their responsibilities in areas, such as wages, working conditions, and environmental protection, across different countries that have varying laws and norms regulating such responsibilities. ExxonMobil, for instance, has helped build hospitals and expand schools in the west African nation of Angola, where it has established a growing oil business. The firm also supports a local anti-malaria program in the area.

Contemporary Social Consciousness

Social consciousness and views toward social responsibility continue to evolve. The business practices of such entrepreneurs as John D. Rockefeller, J. P. Morgan, and Cornelius Vanderbilt raised concerns about abuses of power and led to the nation's first laws regulating basic business practices. In the 1930s, many people blamed the Great Depression on a climate of business greed and lack of restraint. Out of this economic turmoil emerged new laws that dictated an expanded role for business in protecting and enhancing the general welfare of society. Hence, the concept of *accountability* was formalized.

In the 1960s and 1970s, business was again characterized as a negative social force. Some critics even charged that defense contractors had helped to promote the Vietnam War to spur their own profits. Eventually, increased social activism prompted increased government regulation in a variety of areas. Health warnings were placed on cigarettes, for instance, and stricter environmental protection laws were enacted.

During the 1980s and 1990s, the general economic prosperity enjoyed in most sectors of the economy led to another period of laissez-faire attitudes toward business. While the occasional scandal or major business failure occurred, people for the most part seemed to view business as a positive force in society and one that was generally able to police itself through self-control and free-market forces. Many businesses continue to operate in enlightened and socially responsible ways. For example, retailers such as Sears and Target have policies against selling handguns and other weapons.

GameStop refuses to sell Mature-rated games to minors and Anheuser-Busch promotes the concept of responsible drinking in some of its advertising.

Firms in numerous other industries have also integrated socially conscious thinking into their production plans and marketing efforts. The production of environmentally safe products has become a potential boom area as many companies introduce products designed to be environmentally friendly. Electrolux, a Swedish appliance maker, has developed a line of water-efficient washing machines, a solar-powered lawn mower, and ozone-free refrigerators. Ford and General Motors are both aggressively studying and testing ways to develop and market low-pollution vehicles fueled by electricity, hydrogen, and other alternative energy sources.

Unfortunately, the spate of corporate scandals and incredible revelations in the last few years may revive negative attitudes and skepticism toward business. As just a single illustration, widespread moral outrage erupted when some of the perquisites provided to former Tyco International CEO Dennis Kozlowski were made public. These perks included such extravagances as a $50 million mansion in Florida and an $18 million apartment in New York, along with $11 million for antiques and furnishings (including a $6,000 shower curtain). The firm even paid for a $2.1 million birthday party in Italy for Kozlowski's wife. It's not as though Kozlowski was a pauper—he earned almost $300 million between 1998 and 2001 in salary, bonuses, and stock proceeds. In late 2005, Kozlowski was sentenced to 8-to-25 years in prison.

3 Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.

Areas of Social Responsibility

When defining its sense of social responsibility, a firm typically confronts four areas of concern: responsibilities toward the *environment*, its *customers*, its *employees*, and its *investors*.

Responsibility toward the Environment

The topic of global warming has become a major issue for business and government alike. However, while most experts agree that the earth is, in fact, warming, the causes, magnitude, and possible solutions are all subject to widespread debate. At present it appears that climate change is occurring at a relatively mild pace and we are experiencing few day-to-day changes in the weather. We are, however, increasing the likelihood of having troublesome weather around the globe—droughts, hurricanes, winter sieges, and so forth.[8] The charges leveled against greenhouse emissions are disputed, but as one researcher puts it, "The only way to prove them for sure is to hang around 10, 20, or 30 more years, when the evidence would be overwhelming. But in the meantime, we're conducting a global experiment. And we're all in the test tube." The movie *The Day After Tomorrow* portrayed one possible scenario of rapid climate changes wrought by environmental damage and 2011's *Contagion* illustrated the possible effects of a global pandemic.

Controlling *pollution*—the injection of harmful substances into the environment—is a significant challenge for contemporary business. Although noise pollution is now attracting increased concern, air, water, and land pollution remain the greatest problems in need of solutions from governments and businesses alike. In the following sections, we focus on the nature of the problems in these areas and on some of the current efforts to address them.

Air Pollution Air pollution results when several factors combine to lower air quality. Carbon monoxide emitted by cars contributes to air pollution, as do smoke and other chemicals produced by manufacturing plants. Air quality is usually worst in certain geographic locations, such as the Denver area and the Los Angeles basin, where pollutants tend to get trapped in the atmosphere. For this very reason, the air around Mexico City is generally considered to be the most polluted in the entire world.

Legislation has gone a long way toward controlling air pollution. Under new laws, many companies must now install special devices to limit the pollutants they expel into the air, and such efforts are costly. Air pollution is compounded by such problems as acid rain, which occurs when sulfur is pumped into the atmosphere, mixes with natural moisture, and falls to the ground as rain. Much of the damage to forests and streams in the eastern United States and Canada has been attributed to acid rain originating in sulfur from manufacturing and power plants in the midwestern United States. The North American Free Trade Agreement (NAFTA) also includes provisions that call for increased controls on air pollution, especially targeting areas that affect more than one member nation.

Water Pollution Water becomes polluted primarily from chemical and waste dumping. For years, businesses and cities dumped waste into rivers, streams, and lakes with little regard for the consequences. Cleveland's Cuyahoga River was once so polluted that it literally burst into flames one hot summer day. After an oil spill, a Houston ship channel burned for days.

Thanks to new legislation and increased awareness, water quality in many areas of the United States is improving. The Cuyahoga River now boasts fish and is even used for recreation. Laws in New York and Florida forbidding dumping of phosphates (an ingredient found in many detergents) have helped to make Lake Erie and other major waters safe again for fishing and swimming. Both the Passaic River in New Jersey and the Hudson River in New York are much cleaner now than they were just a few years ago.

Land Pollution Two key issues characterize land pollution. The first is how to restore the quality of land that has already been damaged. Land and water damaged by toxic waste, for example, must be cleaned up for the simple reason that people still need to use them. The second problem is the prevention of future contamination. New forms of solid-waste disposal constitute one response to these problems. Combustible wastes can be separated and used as fuels in industrial boilers, and decomposition can be accelerated by exposing waste matter to certain microorganisms.

Toxic Waste Disposal An especially controversial problem in land pollution is toxic waste disposal. Toxic wastes are dangerous chemical or radioactive by-products of manufacturing processes. U.S. manufacturers produce between 40 and 60 million tons of such material each year. As a rule, toxic waste must be stored; it cannot be destroyed or processed into harmless material. Few people, however, want toxic waste storage sites in their backyards. A few years ago, American Airlines pled guilty—and became the first major airline to gain a criminal record—to a felony charge that it had mishandled some hazardous materials packed as cargo in passenger airplanes. While fully acknowledging the firm's guilt, Anne McNamara, American's general counsel, argued that "this is an incredibly complicated area with many layers of regulation. It's very easy to inadvertently step over the line."

Recycling Recycling is another controversial area in land pollution. Recycling—the reconversion of waste materials into useful products—has become an issue not only for municipal and state governments but also for many companies engaged in high-waste activities. Certain products, such as aluminum cans and glass, can be very efficiently recycled. Others, such as plastics, are more troublesome. For example, brightly colored plastics, such as some detergent and juice bottles, must be recycled separately from clear plastics, such as milk jugs. Most plastic bottle caps, meanwhile, contain a vinyl lining that can spoil a normal recycling batch. Nevertheless, many local communities actively support various recycling programs, including curbside pickup of aluminum, plastics, glass, and pulp paper. Unfortunately, consumer awareness and interest in this area—and the policy priorities of businesses—are more acute at some times than at others.

Responsibility toward Customers

A company that does not act responsibly toward its customers will ultimately lose their trust and their business. To encourage responsibility, the FTC regulates advertising and pricing practices, and the FDA enforces labeling guidelines for food products. These government regulating bodies can impose penalties against violators, who may also face civil litigation. For example, in 2006, the FTC fined the social networking site Xanga $1 million for allowing children under the age of 13 to create accounts in clear violation of the Children's Online Privacy Protection Act.[9] Table 2.1 summarizes the central elements of so-called "green marketing"—the marketing of environmentally friendly goods.

Consumer Rights Current interest in business responsibility toward customers can be traced to the rise of **consumerism**—social activism dedicated to protecting the rights of consumers in their dealings with businesses. The first formal declaration of consumer rights protection came in the early 1960s, when President John F. Kennedy identified four basic consumer rights. Since then, general agreement on two additional rights has emerged; these rights are described in Figure 2.4. The Consumer Bill of Rights is backed by numerous federal and state laws.

Merck provides an instructive example of what can happen to a firm that violates one or more of these consumer rights. For several years the firm aggressively marketed the painkiller Vioxx, which it was forced to recall in 2004 after clinical trials linked it to an increased risk of heart attacks and strokes. After the recall was announced, it was revealed that Merck had known about these risks as early as 2000 and downplayed them so that they could continue selling it. In 2007, Merck agreed to pay $4.85 billion to individuals or families of those who were injured or died as a result of taking the drug.[13]

Unfair Pricing Interfering with competition can take the form of illegal pricing practices. **Collusion** occurs when two or more firms collaborate on such wrongful acts as price fixing. In 2007, the European airlines Virgin and Lufthansa admitted to colluding with rivals to raise the prices of fuel surcharges on passenger flights as much as 12 times the regular price between August 2004 and January 2006. British Airways and Korean Air Lines were heavily fined, but in exchange for turning them in, Virgin and Lufthansa were not penalized.[14]

Firms can also come under attack for *price gouging*—responding to increased demand with overly steep (and often unwarranted) price increases. For example, during threats of severe weather, people often stock up on bottled water and batteries. Unfortunately, some retailers take advantage of this pattern by marking up

TABLE 2.1 The Elements of Green Marketing

- **Production Processes** Businesses, like Ford Motors and General Electric, modify their production processes to limit the consumption of valuable resources like fossil fuels by increasing energy efficiency and reduce their output of waste and pollution by cutting greenhouse gas emissions.
- **Product Modification** Products can be modified to use more environmentally friendly materials, a practice S.C. Johnson encourages with its Greenlist of raw materials classified according to their impact on health and the environment. Committed to only using the safest materials on this list, S.C. Johnson eliminated 1.8 million pounds of volatile organic compounds from its glass cleaner Windex.[10]
- **Carbon Offsets** Many companies are committed to offsetting the CO2 produced by their products and manufacturing processes. In 2007, Volkswagen began a program of planting trees (which consume CO2 during photosynthesis) in the so-called VW Forest in the lower Mississippi alluvial valley to offset the CO2 emissions of every car they sell.[11]
- **Packaging Reduction** Reducing and reusing materials used in packaging products is another important strategy of green marketing, which Starbucks has pioneered. In 2004 the U.S. Food and Drug Administration gave the coffee retailer the first-ever approval to use recycled materials in its food and beverage packaging. Starbucks estimates that using cups composed of 10 percent recycled fibers reduces its packaging waste by more than 5 million pounds per year.[12]
- **Sustainability** Using renewable resources and managing limited resources responsibly and efficiently are important goals for any business pursuing a green policy. For example, Whole Foods Market is committed to buying food from farmers who use sustainable agriculture practices that protect the environment and agricultural resources, like land and water.

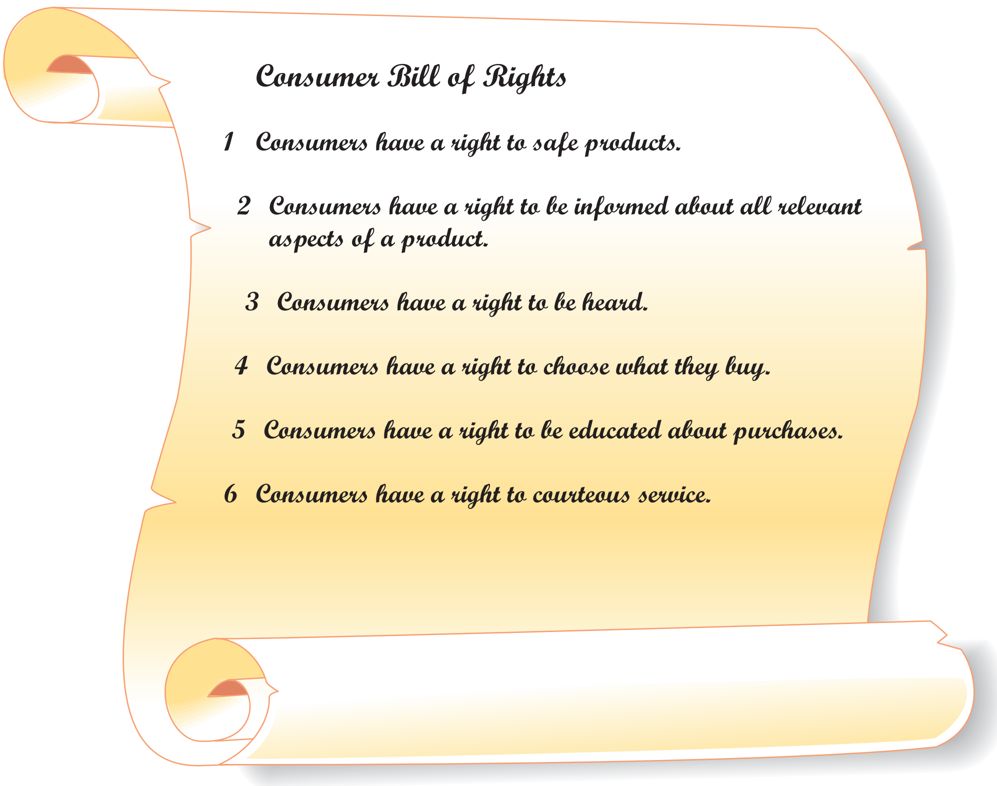

Figure 2.4 Consumer Bill of Rights

prices. Reports were widespread of gasoline retailers doubling or even tripling prices immediately after the events of September 11, 2001, and following the U.S. invasion of Iraq in 2003. Similar problems arose after hurricanes Katrina and Rita damaged oil refineries along the Gulf Coast in late 2005.

Ethics in Advertising In recent years, increased attention has been given to ethics in advertising and product information. Controversy arose when *Newsweek* magazine reported that Sony had literally created a movie critic who happened to be particularly fond of movies released by Sony's Columbia Pictures. When advertising its newest theatrical releases, the studio had been routinely using glowing quotes from a fictitious critic. After the story broke, Sony hastily stopped the practice and apologized.

Another issue concerns advertising that some consumers consider morally objectionable—for products such as underwear, condoms, alcohol, tobacco products, and firearms. Laws regulate some of this advertising (for instance, tobacco cannot be promoted in television commercials but can be featured in print ads in magazines), and many advertisers use common sense and discretion in their promotions. But some companies, such as Calvin Klein and Victoria's Secret, have come under fire for being overly explicit in their advertising.

Jeff Morgan 06/Alamy

This magazine ad for cigarettes is legal in India but not in the United States.

Consumerism form of social activism dedicated to protecting the rights of consumers in their dealings with businesses

Collusion illegal agreement between two or more companies to commit a wrongful act

Responsibility toward Employees

In Chapter 10, we show how a number of human resource management activities are essential to a smoothly functioning business. These activities—recruiting, hiring, training, promoting, and compensating—are also the basis for social responsibility toward employees.

Legal and Social Commitments By law, businesses cannot practice a wide variety of forms of discrimination against people in any facet of the employment relationship. For example, a company cannot refuse to hire someone because of ethnicity or pay someone a lower salary than someone else on the basis of gender. A company that provides its employees with equal opportunities without regard to race, sex, or other irrelevant factors is meeting both its legal and its social responsibilities. Firms that ignore these responsibilities risk losing good employees and leave themselves open to lawsuits.

Most would also agree that an organization should strive to ensure that the workplace is physically and socially safe. Companies with a heightened awareness of social responsibility also recognize an obligation to provide opportunities to balance work and life pressures and preferences, help employees maintain job skills, and, when terminations or layoffs are necessary, treat them with respect and compassion.

Ethical Commitments: The Special Case of Whistle-Blowers Respecting employees as people also means respecting their behavior as ethical individuals. Ideally, an employee who discovers that a business has been engaging in illegal, unethical, or socially irresponsible practices should be able to report the problem to higher-level management and feel confident that managers will stop the questionable practices. However, if no one in the organization will take action, the employee might elect to drop the matter, or he or she may inform a regulatory agency or the media and become what is known as a **whistle-blower**—an employee who discovers and tries to put an end to a company's unethical, illegal, or socially irresponsible actions by publicizing them.[15]

Unfortunately, whistle-blowers may be demoted, fired, or, if they remain in their jobs, treated with mistrust, resentment, or hostility by coworkers. One recent study suggests that about half of all whistle-blowers eventually get fired, and about half of those who get fired subsequently lose their homes and/or families.[16] The law offers some recourse to employees who take action. The current whistle-blower law stems from the False Claims Act of 1863, which was designed to prevent contractors from selling defective supplies to the Union Army during the Civil War. With 1986 revisions to the law, the government can recover triple damages from fraudulent contractors. If the Justice Department does not intervene, a whistle-blower can proceed with a civil suit. In that case, the whistle-blower receives 25 to 30 percent of any money recovered.[17] Unfortunately, however, the prospect of large cash awards has generated a spate of false or questionable accusations.[18] In the wake of the Bernard Madoff investment scams, news broke that a Boston fraud investigator had for years been trying to convince the Securities and Exchange Commission (SEC) that Madoff was engaging in illegal and unethical practices. His warnings, though, had been ignored. This embarrassing revelation led to the SEC's recent announcement that it was reviewing all of its procedures regarding whistle-blowing and a pledge from the SEC chairman that new procedures would be put into place to safeguard against future problems.

Responsibility toward Investors

Managers can abuse their responsibilities to investors in several ways. As a rule, irresponsible behavior toward shareholders means abuse of a firm's financial resources so that shareholder-owners do not receive their due earnings or dividends. Companies can also act irresponsibly toward shareholder-owners by misrepresenting company resources.

Improper Financial Management Blatant financial mismanagement—such as paying excessive salaries to senior managers, sending them on extravagant "retreats" to exotic resorts, and providing frivolous perks—may be unethical but not necessarily illegal. In such situations, creditors and stockholders have few options for recourse. Forcing a management changeover is a difficult process that can drive down stock prices—a penalty that shareholders are usually unwilling to impose on themselves.

Insider Trading **Insider trading** is using confidential information to gain from the purchase or sale of stocks. Suppose, for example, that a small firm's stock is currently trading at $50 a share. If a larger firm is going to buy the smaller one, it might have to pay as much as $75 a share for a controlling interest. Individuals aware of the impending acquisition before it is publicly announced, such as managers of the two firms or the financial institution making the arrangements, could gain by buying the stock at $50 in anticipation of selling it for $75 after the proposed acquisition is announced.

Informed executives can also avoid financial loss by selling stock that's about to drop in value. Legally, stock can only be sold on the basis of public information available to all investors. Potential violations of this regulation were at the heart of the recent Martha Stewart scandal. Sam Waksal, president of ImClone, learned that the company's stock was going to drop in value and hastily tried to sell his own stock. He also allegedly tipped off close friend Martha Stewart, who subsequently sold her stock as well. Stewart, who argued that she never received Waksal's call and sold her stock only because she wanted to use the funds elsewhere, eventually pled guilty to other charges (lying to investigators) and served time in prison. Waksal, meanwhile, received a much stiffer sentence because his own attempts to dump his stock were well documented.

Misrepresentation of Finances In maintaining and reporting its financial status, every corporation must conform to generally accepted accounting principles (GAAP; see Chapter 14). Unethical managers might project profits in excess of what they actually expect to earn, hide losses and/or expenses in order to boost paper profits, or slant financial reports to make the firm seem stronger than is really the case. In 2002, the U.S. Congress passed the *Sarbanes-Oxley Act*, which requires an organization's chief financial officer to personally guarantee the accuracy of all financial reporting (see Chapter 14).

Implementing Social Responsibility Programs

4 Identify four general approaches to social responsibility and describe the four steps that a firm must take to implement a social responsibility program.

Opinions differ dramatically concerning social responsibility as a business goal. While some oppose any business activity that threatens profits, others argue that social responsibility must take precedence. Some skeptics fear that businesses will gain too much control over the ways social projects are addressed by society as a whole, or that they lack the expertise needed to address social issues. Still, many believe that corporations should help improve the lives of citizens because they are citizens themselves, often control vast resources, and may contribute to the very problems that social programs address.

Whistle-blower employee who detects and tries to put an end to a company's unethical, illegal, or socially irresponsible actions by publicizing them

Insider Trading illegal practice of using special knowledge about a firm for profit or gain

Figure 2.5 Spectrum of Approaches to Corporate Social Responsibility

Approaches to Social Responsibility

Given these differences of opinion, it is little wonder that corporations have adopted a variety of approaches to social responsibility. As Figure 2.5 illustrates, the four stances that an organization can take concerning its obligations to society fall along a continuum ranging from the lowest to the highest degree of socially responsible practices.

Obstructionist Stance The few organizations that take an **obstructionist stance** to social responsibility usually do as little as possible to solve social or environmental problems, have little regard for ethical conduct, and will go to great lengths to deny or cover up wrongdoing. For example, IBP, a leading meat-processing firm, has a long record of breaking environmental protection, labor, and food processing laws and then trying to cover up its offenses. Similarly, in 2009 a Georgia peanut processing plant owned by Peanut Corporation of America shipped products contaminated with salmonella. The firm's top manager allegedly knew that the products had failed safety tests but shipped them anyway in order to avoid losing money.

Defensive Stance Organizations that take a **defensive stance** will do everything that is legally required, including admitting to mistakes and taking corrective actions, but nothing more. Defensive stance managers insist that their job is to generate profits and might, for example, install pollution-control equipment dictated by law but not higher-quality equipment to further limit pollution.

Tobacco companies generally take this position in their marketing efforts. In the United States, they are legally required to include product warnings and to limit advertising to prescribed media. Domestically, they follow these rules to the letter of the law, but in many Asian and African countries, which don't have these rules, cigarettes are heavily promoted, contain higher levels of tar and nicotine, and carry few or no health warning labels.

Accommodative Stance A firm that adopts an **accommodative stance** meets and, in certain cases exceeds, its legal and ethical requirements. Such firms will agree to participate in social programs if solicitors convince them that given programs are worthy of their support. Both Shell and IBM, for example, will match contributions made by their employees to selected charitable causes.

Proactive Stance Firms with the highest degree of social responsibility exhibit the **proactive stance;** they take to heart the arguments in favor of social responsibility, view themselves as citizens in a society, indicate sincere commitment to improve the general social welfare, and surpass the accommodative stance by proactively seeking opportunities to contribute. The most common—and direct—way to implement this stance is to set up a foundation for providing direct financial support for various social programs. Table 2.2 lists the top 50 corporate foundations using the most recent data available.

An excellent example of a proactive stance is the McDonald's Corporation's Ronald McDonald House program. These houses, located close to major medical

TABLE 2.2 Top 25 Corporate Foundations

Rank	Name/(state)	Total Giving	As of Fiscal Year End Date
1	sanofi-aventis Patient Assistance Foundation (NJ)	$321,376,881	12/31/2009
2	The Wal-Mart Foundation, Inc. (AR)	216,557,131	01/31/2009
3	The Bank of America Charitable Foundation, Inc. (NC)	186,149,230	12/31/2009
4	Novartis Patient Assistance Foundation, Inc. (NJ)	177,195,258	12/31/2009
5	GE Foundation (CT)	103,573,293	12/31/2009
6	The Wachovia Wells Fargo Foundation, Inc. (NC)	99,435,085	12/31/2009
7	The JPMorgan Chase Foundation (NY)	77,145,399	12/31/2008
8	ExxonMobil Foundation (TX)	73,544,150	12/31/2009
9	Wells Fargo Foundation (CA)	68,367,615	12/31/2009
10	Citi Foundation (NY)	66,507,524	12/31/2009
11	Verizon Foundation (NJ)	56,289,332	12/31/2009
12	Johnson & Johnson Family of Companies Contribution Fund (NJ)	49,556,298	12/31/2009
13	The Merck Company Foundation (NJ)	42,238,719	12/31/2009
14	The Coca-Cola Foundation, Inc. (GA)	40,968,382	12/31/2009
15	Intel Foundation (OR)	40,481,300	12/31/2009
16	MetLife Foundation (NY)	39,465,498	12/31/2009
17	The UPS Foundation (GA)	38,913,155	12/31/2009
18	AT&T Foundation (TX)	38,176,693	12/31/2009
19	BP Foundation, Inc. (TX)	37,210,977	12/31/2009
20	California Physicians' Service Foundation (CA)	34,725,931	12/31/2009
21	Abbott Fund (IL)	34,202,053	12/31/2009
22	Caterpillar Foundation (IL)	31,239,085	12/31/2009
23	Eli Lilly and Company Foundation (IN)	30,345,734	12/31/2009
24	The Boeing Company Charitable Trust (TX)	30,053,296	12/31/2009
25	The PNC Foundation (PA)	29,694,921	12/31/2009

Source: 50 Largest Corporate Foundations by Total Giving, 2009 © 2011 The Foundation Center. Used by permission.

centers, can be used for minimal cost by families while their sick children are receiving medical treatment nearby. However, these categories are not sharply distinct: Organizations do not always fit neatly into one category or another. The Ronald McDonald House program has been widely applauded, but McDonald's has also been accused of misleading consumers about the nutritional value of its food products.

Obstructionist Stance approach to social responsibility that involves doing as little as possible and may involve attempts to deny or cover up violations

Defensive Stance approach to social responsibility by which a company meets only minimum legal requirements in its commitments to groups and individuals in its social environment

Accommodative Stance approach to social responsibility by which a company, if specifically asked to do so, exceeds legal minimums in its commitments to groups and individuals in its social environment

Proactive Stance approach to social responsibility by which a company actively seeks opportunities to contribute to the well-being of groups and individuals in its social environment

Managing Social Responsibility Programs

A full commitment to social responsibility requires a carefully organized and managed program and managers who take steps to foster a companywide sense of social responsibility:[19]

1. *Social responsibility must start at the top and be considered a factor in strategic planning.* No program can succeed without the support of top management, who must embrace a strong stand on social responsibility and develop a policy statement outlining that commitment.
2. *A committee of top managers must develop a plan detailing the level of management support.* Companies may set aside percentages of profits for social programs or set specific priorities, such as supporting the arts.
3. *One executive must be put in charge of the firm's agenda.* Whether a separate job or part of an existing one, the selected individual must monitor the program and ensure implementation consistent with the firm's policy statement and strategic plan.
4. *The organization must conduct occasional* social audits*—systematic analyses of its success in using funds earmarked for its social responsibility goals.* Consider the case of a company whose strategic plan calls for spending $200,000 to train 300 unemployed people and to place 275 of them in jobs. If, at the end of a year, the firm has spent $198,000, trained 305 people, and filled 270 jobs, a **social audit** will confirm the program's success. But if the program has cost $350,000, trained only 190 people, and placed only 40 of them, the audit will reveal the program's failure. Such failure should prompt a rethinking of the program's implementation and its priorities.

So far, we have discussed social responsibility as if there were some agreement on how organizations should behave. Opinions differ dramatically concerning the role of social responsibility as a business goal. Some people oppose any business activity that threatens profits. Others argue that social responsibility must take precedence over profits.

Even businesspeople who agree on the importance of social responsibility will cite different reasons for their views. Some skeptics of business-sponsored social projects fear that if businesses become too active, they will gain too much control over the ways in which those projects are addressed by society as a whole. These critics point to the influence that many businesses have been able to exert on the government agencies that are supposed to regulate their industries. Other critics claim that business organizations lack the expertise needed to address social issues. They argue, for instance, that technical experts, not businesses, should decide how to clean up polluted rivers.

Proponents of socially responsible business believe that corporations are citizens and should, therefore, help to improve the lives of fellow citizens. Still others point to the vast resources controlled by businesses and note that they help to create many of the problems social programs are designed to alleviate.

5 Explain how issues of social responsibility and ethics affect small business.

Social Responsibility and the Small Business

As the owner of a garden supply store, how would you respond to a building inspector's suggestion that a cash payment will speed your application for a building permit? As the manager of a liquor store, would you call the police, refuse to sell, or sell to a customer whose identification card looks forged? As the owner of a small laboratory, would you call the state board of health to make sure that it has licensed the company with whom you want to contract to dispose of medical waste? Who will really be harmed if a small firm pads its income statement to help it get a much-needed bank loan?

Many of the examples in this chapter illustrate big-business responses to ethical and social responsibility issues. Such examples, however, show quite clearly that small businesses must answer many of the same questions. Differences are primarily differences of scale.

At the same time, these are largely questions of *individual* ethics. What about questions of social responsibility? Can a small business, for example, afford a social agenda? Should it sponsor Little League baseball teams, make donations to the United Way, and buy lightbulbs from the Lion's Club? Do joining the chamber of commerce and supporting the Better Business Bureau cost too much? Clearly, ethics and social responsibility are decisions faced by all managers in all organizations, regardless of rank or size. One key to business success is to decide in advance how to respond to the issues that underlie all questions of ethical and social responsibility.

Social Audit systematic analysis of a firm's success in using funds earmarked for meeting its social responsibility goals

David Robertson/Alamy

Continued from page 32

Green ... But Not Too Green

The *Deepwater Horizon* disaster clearly dealt a blow to BP's efforts to portray itself as the leading environmentally friendly oil company. Not only were 11 workers killed in the explosion, but millions of gallons of crude oil gushed into the Gulf of Mexico for months as the firm seemed hapless in its efforts to stop the leak. Businesses across the entire Gulf Coast were affected, and thousands of people lost their jobs—permanently or temporarily. BP also faced a major crisis as it attempted to stop the leak, minimize the environmental damage, and assure people it would provide adequate compensation once everything was settled.

But BP is nothing if not bold. For example, the oil giant continues to risk compromising its green image by engaging in what Greenpeace calls the "greatest climate crime" in history—extracting oil from the tar sands of Alberta, Canada. The project is energy- and water-intensive, produces excessive amounts of greenhouse gases, destroys acres of forest, and harms indigenous communities, but it comes at a time when oil prices are high and western consumers are dependent on Middle Eastern oil. It remains to be seen whether BP's seemingly socially responsible ends can justify their environmentally damaging means.

QUESTIONS FOR DISCUSSION

1. What are the major ethical issues in this case?
2. Aside from personal greed, what factors might lead an oil company to compile a long list of environmental damages?
3. Which approach to social responsibility does BP appear to be taking?
4. Distinguish between ethical issues and social responsibility issues as they apply to this problem.

SUMMARY OF LEARNING OBJECTIVES MyBizLab

1. Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace. (pp. 32–38)

Ethics are beliefs about what's right and wrong or good and bad. *Ethical behavior* conforms to individual beliefs and social norms about what's right and good. *Unethical behavior* is behavior that individual beliefs and social norms define as wrong and bad. *Managerial ethics* are standards of behavior that guide managers. There are three broad categories of ways in which managerial ethics can affect people's work: (1) *behavior toward employees*, (2) *behavior toward the organization*, and (3) *behavior toward other economic agents*.

One model for applying ethical judgments to business situations recommends the following three steps: (1) Gather relevant factual information, (2) analyze the facts to determine the most appropriate moral values, and (3) make an ethical judgment based on the rightness or wrongness of the proposed activity or policy. Perhaps the single most effective step that a company can take is to *demonstrate top management support*. In addition to promoting attitudes of honesty and openness, firms can also take specific steps to formalize their commitment: (1) *adopting written codes* and (2) *instituting ethics programs*.

2. Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today. (pp. 38–42)

Ethics affect individuals. *Social responsibility* refers to the way a firm attempts to balance its commitments to organizational stakeholders—those groups, individuals, and organizations that are directly affected by the practices of an organization and, therefore, have a stake in its performance. Many companies concentrate on five main groups: (1) *customers*, (2) *employees*, (3) *investors*, (4) *suppliers*, and (5) *local communities*.

Attitudes toward social responsibility have changed. The late nineteenth century, though characterized by the entrepreneurial spirit and the laissez-faire philosophy, also featured labor strife and predatory business practices. Concern about unbridled business activity was soon translated into laws regulating business practices. Out of the economic turmoil of the 1930s, when greed was blamed for business failures and the loss of jobs, came new laws protecting and enhancing social well-being. During the 1960s and 1970s, activism prompted increased government regulation in many areas of business. Today's attitudes stress a greater social role for business. This view, combined with the economic prosperity of the 1980s and 1990s, marked a return to the laissez-faire philosophy, but the recent epidemic of corporate scandals threatens to revive the 1930s call for more regulation and oversight.

3. Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors. (pp. 42–47)

A firm confronts four areas of concern: (1) *responsibility toward the environment*, (2) *responsibility toward customers*, (3) *responsibility toward employees*, and (4) *responsibility toward investors*. Organizations and managers may be guilty of *financial mismanagement*—offenses that are unethical but not necessarily illegal. Certain unethical practices are illegal. Using confidential information to gain from a stock transaction is *insider trading*. Certain behavior regarding financial representation is also unlawful.

4. Identify four general approaches to social responsibility and describe the four steps that a firm must take to implement a social responsibility program. (pp. 47–50)

A business can take one of four stances concerning its social obligations to society: (1) *obstructionist stance*, (2) *defensive stance*, (3) *accommodative stance*, or (4) *proactive stance*. One model suggests a four-step approach to fostering a companywide sense of social responsibility: (1) Social responsibility must start at the top and be included in strategic planning. (2) Top managers must develop a plan detailing the level of management support. (3) One executive must be put in charge of the agenda. (4) The organization must conduct occasional social audits—analyses of its success in using funds earmarked for social responsibility goals.

5. Explain how issues of social responsibility and ethics affect small business. (pp. 50–51)

For small businesspeople, ethical issues are questions of individual ethics. But in questions of social responsibility, they must ask themselves if they can afford a social agenda, such as sponsoring Little League baseball teams or making donations to the United Way. They should also realize that managers in *all* organizations face issues of ethics and social responsibility.

KEY TERMS MyBizLab

accommodative stance (p. 48)
business ethics (p. 32)
collusion (p. 44)
consumerism (p. 44)
defensive stance (p. 48)
ethical behavior (p. 32)
ethics (p. 32)
insider trading (p. 47)
managerial ethics (p. 33)
obstructionist stance (p. 48)
organizational stakeholders (p. 38)
proactive stance (p. 48)
social audit (p. 50)
social responsibility (p. 38)
unethical behavior (p. 32)
whistle-blower (p. 46)

QUESTIONS AND EXERCISES

QUESTIONS FOR REVIEW

1. What basic factors should be considered in any ethical decision?
2. Who are an organization's stakeholders? Who are the major stakeholders with which most businesses must be concerned?
3. What are the major areas of social responsibility with which businesses should be concerned?
4. What are the four basic approaches to social responsibility?
5. In what ways do you think your personal code of ethics might clash with the operations of some companies? How might you try to resolve these differences?

QUESTIONS FOR ANALYSIS

6. What kind of wrongdoing would most likely prompt you to be a whistle-blower? What kind of wrongdoing would be least likely? Why?
7. In your opinion, which area of social responsibility is most important? Why? Are there areas other than those noted in the chapter that you consider important?
8. Identify some specific ethical or social responsibility issues that might be faced by small-business managers and employees in each of the following areas: environment, customers, employees, and investors.

APPLICATION EXERCISES

9. Develop a list of the major stakeholders of your college or university. How do you think the school prioritizes these stakeholders? Do you agree or disagree with this prioritization?
10. Using newspapers, magazines, and other business references, identify and describe at least three companies that take a defensive stance to social responsibility, three that take an accommodative stance, and three that take a proactive stance.

BUILDING YOUR BUSINESS SKILLS

To Lie or Not to Lie: That Is the Question

Goal

To encourage you to apply general concepts of business ethics to specific situations.

Background Information

It seems workplace lying has become business as usual. According to one survey, one-quarter of working adults in the United States said that they had been asked to do something illegal or unethical on the job. Four in 10 did what they were told. Another survey of more than 2,000 secretaries showed that many employees face ethical dilemmas in their day-to-day work.

Method

Step 1

Working with a small group of other students, discuss ways in which you would respond to the following ethical dilemmas. When there is a difference of opinion among group members, try to determine the specific factors that influence different responses.

- Would you lie about your supervisor's whereabouts to someone on the phone? Would it depend on what the supervisor was doing?
- Would you lie about who was responsible for a business decision that cost your company thousands of dollars to protect your own or your supervisor's job?
- Would you inflate sales and revenue data on official company accounting statements to increase stock value? Would you do so if your boss ordered it?
- Would you say that you witnessed a signature when you did not if you were acting in the role of a notary?
- Would you keep silent if you knew that the official minutes of a corporate meeting had been changed? Would the nature of the change matter?
- Would you destroy or remove information that could hurt your company if it fell into the wrong hands?

Step 2

Research the commitment to business ethics at Johnson & Johnson (www.jnj.com) and Texas Instruments (www.ti.com/corp/docs/ethics/home.htm) by checking out their respective websites. As a group, discuss ways in which these statements are likely to affect the specific behaviors mentioned in Step 1.

Step 3

Working with group members, draft a corporate code of ethics that would discourage the specific behaviors mentioned in Step 1. Limit your code to a single printed page, but make it sufficiently broad to cover different ethical dilemmas.

FOLLOW-UP QUESTIONS

1. What personal, social, and cultural factors do you think contribute to lying in the workplace?
2. Do you agree or disagree with the statement "The term business ethics is an oxymoron." Support your answer with examples from your own work experience or that of someone you know.
3. If you were your company's director of human resources, how would you make your code of ethics a "living document"?
4. If you were faced with any of the ethical dilemmas described in Step 1, how would you handle them? How far would you go to maintain your personal ethical standards?

EXERCISING YOUR ETHICS: INDIVIDUAL EXERCISE

Taking a Stance

The Situation

A perpetual debate revolves around the roles and activities of business owners in contributing to the greater social good. Promoting the so-called proactive stance, some people argue that businesses should be socially responsible by seeking opportunities to benefit the society in which they are permitted to conduct their affairs. Others promoting the defensive stance maintain that because businesses exist to make profits for owners, they have no further obligation to society.

The Dilemma

Assume that you are the manager of a restaurant near a major manufacturing plant. Many of your customers are employees at the plant. Due to inflation, you are about to raise your prices 10 to 15 percent. You have had new menus created and updated your posters. You have been planning to implement the higher prices in about three weeks.

You have just heard that another plant owned by the same company has been shut down for two weeks due to an explosion. The plant near you will be expected to make up the slack by asking workers to put in longer hours, adding a new shift, and so forth. You anticipate a substantial jump in your business immediately. You are now trying to make a quick decision about your pricing. One option is to go ahead and roll out your higher prices now. Combined with the big jump in traffic, your profits would skyrocket. The other option is to follow your original timetable and wait three weeks to increase your prices. You will have then passed up the opportunity to capitalize on the temporary jump in business.

QUESTIONS TO ADDRESS

1. Which course of action is easier to defend? Why?
2. What is your personal opinion about the appropriate stance that a business should take regarding social responsibility?
3. To what extent is the concept of social responsibility relevant to nonbusiness organizations such as universities, government units, health care organizations, and so forth?

EXERCISING YOUR ETHICS: TEAM EXERCISE

Finding the Balance

The Situation

Managers often find it necessary to find the right balance among the interests of different stakeholders. For instance, paying employees the lowest possible wages can enhance profits, but paying a living wage might better serve the interests of workers. As more businesses outsource production to other countries, these trade-offs become even more complicated.

The Dilemma

The Delta Company currently uses three different suppliers in Southeast Asia for most of its outsourced production. Due to increased demand for its products, it needs to double the amount of business it currently subcontracts to one of these suppliers. (For purposes of this exercise, assume that the company must award the new supplier contract to a single firm, and that it must be one of these three. You can also assume that the quality provided is about the same for all three companies.)

Subcontractor A provides a spartan but clean work environment for its workers; even though the local weather conditions are hot and humid much of the year, the plant is not air conditioned. Delta Company safety experts have verified, though, that the conditions are not dangerous, simply a bit uncomfortable at times. The firm pays its workers the same prevailing wage rate that is paid by its local competitors. While it has never had a legal issue with its workforce, it does push its employees to meet production quotas and it has a very tough policy regarding discipline for tardiness. For instance, an employee who is late gets put on probation; a second infraction within three months results in termination. This supplier provides production to Delta Company at a level such that Delta can attach a 25 percent markup.

Subcontractor B also provides a spartan work environment. It pays its workers about 5 percent above local wage levels and hence is an attractive employer. Because of its higher pay, this firm is actually quite ruthless with some of its policies, however. For instance, any employee who reports to work more than 15 minutes late without a medical excuse is automatically terminated. This supplier's costs are such that Delta Company can achieve a 20 percent markup.

Subcontractor C runs a much nicer factory; the plant is air conditioned, for instance. It also pays its workers about 10 percent above local wage levels. The company also operates an on-site school for the children of its employees, and provides additional training for its workers so they can improve their skills. Due to its higher costs, Delta Company's markup on this firm's products is only around 15 percent.

Team Activity

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

- Delta Company executive
- Delta Company employee
- Delta Company customer
- Delta Company investor

ACTION STEPS

1 Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, which firm do you think should get the additional business? Which firm is your second choice? Write down the reasons for your position.
2 Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, what are the underlying ethical issues in this situation? Write down the issues.
3 Gather your group together and reveal, in turn, each member's comments on their choices. Next, reveal the ethical issues listed by each member.
4 Appoint someone to record main points of agreement and disagreement within the group. How do you explain the results? What accounts for any disagreement?
5 From an ethical standpoint, what does your group conclude is the most appropriate choice for the company in this situation?
6 Develop a group response to the following question: Would your decision have been any different if you were able to break up the new contract across different suppliers? Why?

VIDEO EXERCISE MyBizLab

Jones Soda

Learning Objectives

The purpose of this video is to help you:

1 Define social responsibility.
2 Describe the stakeholder model of social responsibility.
3 Identify areas of social responsibility.

Synopsis

Jones Soda is a Seattle-based company founded in 1987 by Peter van Stolk. Although the company first began as a beverage distributor, it quickly evolved into a manufacturer of alternatives to highly popular bottled sodas. Their quirky natural products feature customer pictures on the labels and include unique flavors such as bug juice, blue bubble gum, and turkey and gravy. Jones Soda differs from its larger competitors in many ways, including their use of cane sugar as a sweetener. More recently, in response to changes in customer demand, Jones has introduced a line of zero-calorie products, Zilch. Jones products are available today all over the United States and Canada in a variety of retailers, including Starbucks and Panera Bread. Jones is highly committed to the Seattle area and hands out free sodas every Friday from its headquarters, a tradition that they maintained, even through difficult economic times.

DISCUSSION QUESTIONS

1 Who are Jones Soda's stakeholders?
2 What are the six areas of social responsibility? Which of these areas are highlighted in the video?
3 How did Jones Soda get involved in the 2008 presidential election? Do you think that this was appropriate?
4 Jones Soda shares the core values of its loyal customer base. While this costs them money, do you think that this is a wise business decision? Why or why not?
5 Although this video focuses on social responsibility, do you think that Jones Soda's strategy influences the ethics of its employees? If so, how?

Online Exploration

Visit the Jones Soda website (www.jonessoda.com) and do a little exploration. Find out more about their products and marketing strategy. After you've done a little looking around, click on "Jones Soda Co" on the top right side of the page and select "Keeping it Real." What is Jones Soda doing to "keep it real"? How is Jones Soda making an impact on its customers as well as the Seattle area?

END NOTES

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