The Environment of Management | part 2

CHAPTER 4

Ethics and Social Responsibility

Learning Objectives

After studying this chapter, you should be able to:

LO4-1 Explain the relationship between ethics and the law.

LO4-2 Differentiate between the claims of the different stakeholder groups that are affected by managers and their companies' actions.

LO4-3 Describe four rules that can help companies and their managers act in ethical ways.

LO4-4 Discuss why it is important for managers to behave ethically.

LO4-5 Identify the four main sources of managerial ethics.

LO4-6 Distinguish among the four main approaches toward social responsibility that a company can take.

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A MANAGER'S CHALLENGE

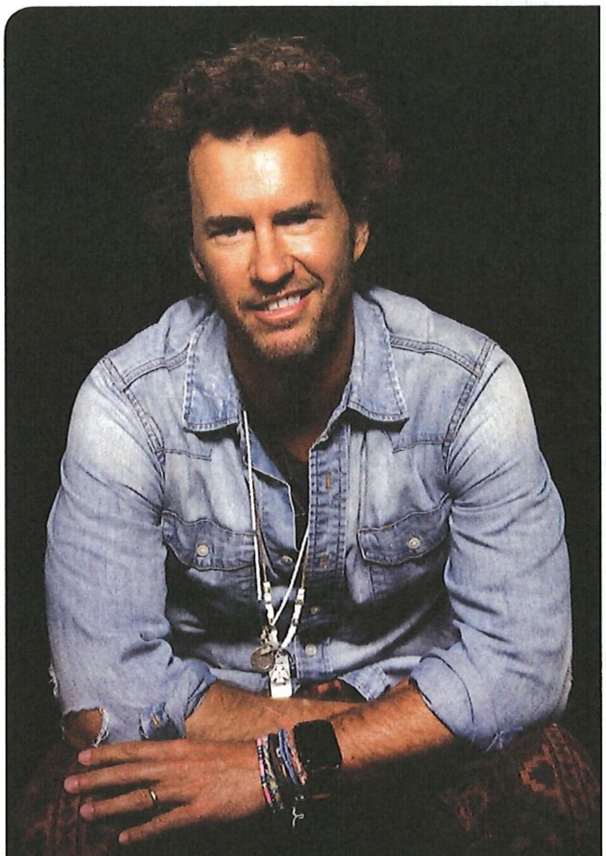
TOMS Adds Clean Water and Bullying to Its Social Agenda

Can ethical and socially responsible management be good for the bottom line? One for One—that is the trademark at TOMS. In 2006 the company began selling shoes, and for every pair of shoes purchased, it gave a pair of new shoes to a person in need. In 2011 the company did the same with eyeglasses, donating a pair of glasses for every pair of sunglasses and optical frames purchased. In 2014 TOMS got into the coffee business and now donates one week of water to one person for every bag of coffee purchased. And in 2015 the company added bullying to its social agenda by offering a special selection of Standup backpacks for sale and partnering with the Crisis Text Line and No Bully. For each backpack sold, TOMS gives a donation to its social partners to help provide training for school staff and crisis counselors to help prevent and respond to instances of bullying.[1]

How can TOMS afford to do this? It is estimated that the TOMS shoes cost $9 to manufacture. The "best sellers" in the shoe area on the TOMS website cost $48. Another best seller on the website is a $179 pair of sunglasses. Twelve ounces of TOMS coffee beans cost $12.99, almost the same price as 16 ounces of Starbucks coffee beans. And the new backpack costs $50.[2]

TOMS operates by identifying a global need and creating a product to help address it. It began when Blake Mycoskie, TOMS founder, was traveling in Argentina and found that many children had no shoes. In response, he established a company that donates a pair of shoes for every purchased pair of shoes. Since then more than 60 million pairs of shoes have been purchased, and 60 million pairs have been donated. TOMS are sold at more than 500 stores globally and on the company's website at TOMS.com.

The next global need Mycoskie identified was eyesight. TOMS partnered with the Seva Foundation to provide eyeglasses and surgeries to the millions of people who are visually impaired in the world. Whenever a pair of TOMS sunglasses or an optical frame is purchased, help is given to restore sight and support sustainable community-based eye care



Blake Mycoskie, founder of TOMS, demonstrates his belief in social responsibility via the company's One for One program. He began with shoes, expanded to eyeglasses, and jumped into coffee roasting to help supply clean water. In 2016, TOMS added bullying to its social agenda—making donations when consumers purchased certain TOMS backpacks.
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programs. More than 400,000 people have received eyeglasses or surgery through the One for One program since 2011. TOMS sunglasses, made in Italy, have three hand-painted stripes that symbolize the three elements of One for One: the buyer, the person being helped, and TOMS.[3]

In 2014 the global need identified was clean water. Mycoskie announced that the company would apply its One for One business model to help provide clean drinking water. To do so, TOMS went into the coffee business. For every bag of TOMS beans sold, a person in need will get clean water for a week. TOMS is partnering with Water for People, an international charity based in Denver, to deliver the water to the regions from which the beans are sourced, including Peru, Honduras, Rwanda, Malawi, and Guatemala. To date, TOMS Roasting Company purchases have helped provide more than 335,000 weeks of safe water for people in need.[4]

In 2015 TOMS identified bullying as one of the social needs the company wanted to address. In the United States, nearly one out of every three students between the ages of 12 and 18 reports being bullied—a statistic TOMS and its partners hope to change. One of TOMS's partners, Crisis Text Line (CTL), focuses specifically on how to respond to bullying by providing real-time emotional support to teens in crisis. A person in need of help can text CTL anytime about any crisis. A trained specialist responds quickly to the text and helps the person stay safe with effective crisis counseling and referrals—all done through texting. No Bully is an organization that partners with schools around the country to train staff on how to interrupt bullying and how to bring students together as a "solution team" when bullying or harassment occurs. These teams empower other students to become leaders in their schools, building empathy for bullied students and working together to find ways to treat everyone with more respect and compassion.[5]

TOMS recently celebrated its 10th anniversary, and Mycoskie remains the face of the organization, although people still ask about "Tom." According to him, there is no Tom—the company's name stands for Mycoskie's vision of selling a pair of shoes today, giving away a pair tomorrow. The word *tomorrow* wouldn't fit on the tag that goes in the shoes, so he shortened it to TOMS. Regardless of the name, TOMS has made a significant contribution to the lives and social well-being of people around the world—starting with one pair of shoes at a time.[6]

Overview

As TOMS's "One for One" campaign illustrates, management decision making can have far-reaching implications when it comes to doing business in a socially responsible manner. TOMS's recent antibullying campaign may be targeted to children and teens, but the campaign affects parents, schools, communities, and many other groups. But globally, nations, companies, and managers differ enormously in their commitment to these people, or *stakeholders*—various groups of people who may benefit or be harmed by how managers make decisions that affect them. Managers of some companies make the need to behave ethically toward stakeholders their main priority. Managers of other companies pursue their own self-interest at the expense of their stakeholders and do harm to them—such as the harm done to the millions of people around the world who work in dangerous, unsanitary conditions or who work for a pittance.

In this chapter we examine the obligations and responsibilities of managers and the companies they work for toward the people and society that are affected by their actions. First we examine the nature of ethics and the sources of ethical problems. Next we discuss the major stakeholder groups that are affected by how companies operate. We also look at four rules or guidelines managers can use to decide whether a specific business decision is ethical or

unethical. Finally, we consider the sources of managerial ethics and the reasons why it is important for a company to behave in a socially responsible manner. By the end of this chapter you will understand the central role of ethics in shaping the practice of management and the life of a people, society, and nation.

The Nature of Ethics

Suppose you see a person being mugged. Will you act in some way to help even though you risk being hurt? Will you walk away? Perhaps you might not intervene, but will you call the police? Does how you act depend on whether the person being mugged is a fit male, an elderly person, or a homeless person? Does it depend on whether other people are around so you can tell yourself, "Oh, well, someone else will help or call the police. I don't need to"?

Ethical Dilemmas

ethical dilemma The quandary people find themselves in when they have to decide if they should act in a way that might help another person or group even though doing so might go against their own self-interest.

The situation just described is an example of an **ethical dilemma**, the quandary people find themselves in when they have to decide if they should act in a way that might help another person or group and is the right thing to do even though doing so might go against their own self-interest.[7] A dilemma may also arise when a person has to choose between two different courses of action, knowing that whichever course he or she selects will harm one person or group even though it may benefit another. The ethical dilemma here is to decide which course of action is the lesser of two evils.

People often know they are confronting an ethical dilemma when their moral scruples come into play and cause them to hesitate, debate, and reflect upon the rightness or goodness of a course of action. Moral scruples are thoughts and feelings that tell a person what is right or wrong; they are a part of a person's ethics. **Ethics** are the inner guiding moral principles, values, and beliefs that people use to analyze or interpret a situation and then decide what is the right or appropriate way to behave. Ethics also indicate what is inappropriate behavior and how a person should behave to avoid harming another person.

ethics The inner guiding moral principles, values, and beliefs that people use to analyze or interpret a situation and then decide what is the right or appropriate way to behave.

The essential problem in dealing with ethical issues, and thus solving moral dilemmas, is that no absolute or indisputable rules or principles can be developed to decide whether an action is ethical or unethical. Put simply, different people or groups may dispute which actions are ethical or unethical depending on their personal self-interest and specific attitudes, beliefs, and values—concepts we discussed in Chapter 3. How are we and companies and their managers and employees to decide what is ethical and, so, act appropriately toward other people and groups?

LO4-1 Explain the relationship between ethics and the law.

Ethics and the Law

The first answer to this question is that society as a whole, using the political and legal process, can lobby for and pass laws that specify what people can and cannot do. Many different kinds of laws govern business—for example, laws against fraud and deception and laws governing how companies can treat their employees and customers. Laws also specify what sanctions or punishments will follow if those laws are broken. Different groups in society lobby for which laws should be passed based on their own personal interests and beliefs about right and wrong. The group that can summon the most support can pass laws that align with its interests and beliefs. Once a law is passed, a decision about what the appropriate behavior is with regard to a person or situation is taken from the personally determined ethical realm to the societally determined legal realm. If you do not conform to the law, you can be prosecuted; and if you are found guilty of breaking the law, you can be punished. You have little say in the matter; your fate is in the hands of the court and its lawyers.

In studying the relationship between ethics and law, it is important to understand that *neither laws nor ethics are fixed principles* that do not change over time. Ethical beliefs change as time passes; as they do so, laws change to reflect the changing ethical beliefs of a society. It was seen as ethical, and it was legal, for example, to acquire and possess slaves in ancient Rome and Greece and in the United States until the late 19th century. Ethical views regarding

whether slavery was morally right or appropriate changed, however. Slavery was made illegal in the United States when those in power decided that slavery degraded the meaning of being human. Slavery makes a statement about the value or worth of human beings and about their right to life, liberty, and the pursuit of happiness. And if we deny these rights to other people, how can we claim to have any natural rights to these things?

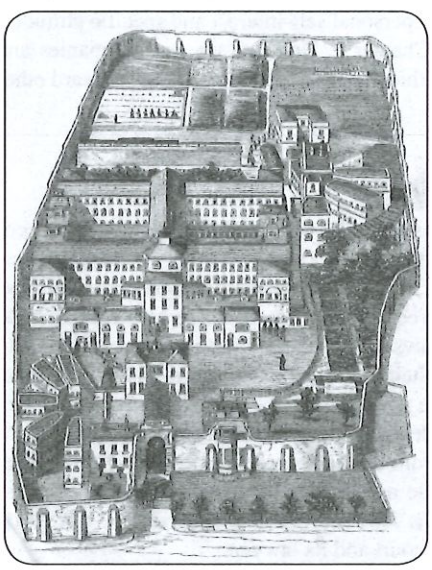
Moreover, what is to stop any person or group that becomes powerful enough to take control of the political and legal process from enslaving us and denying us the right to be free and to own property? In denying freedom to others, one risks losing it oneself, just as stealing from others opens the door for them to steal from us in return. "Do unto others as you would have them do unto you" is a common ethical or moral rule that people apply in such situations to decide what is the right thing to do.

Changes in Ethics over Time

There are many types of behavior—such as murder, theft, slavery, rape, and driving while intoxicated—that most people currently believe are unacceptable and unethical and should therefore be illegal. However, the ethics of many other actions and behaviors are open to dispute. Some people might believe a particular behavior—for example, smoking tobacco or possessing guns—is unethical and, so, should be made illegal. Others might argue that it is up to the individual or group to decide if such behaviors are ethical and thus whether a particular behavior should remain legal.

As ethical beliefs change over time, some people may begin to question whether existing laws that make specific behaviors illegal are still appropriate. They might argue that although a specific behavior is deemed illegal, this does not make it unethical and thus the law should be changed. In 25 states, for example, it is illegal to possess or use marijuana (cannabis). To justify this law, it is commonly argued that smoking marijuana leads people to try more dangerous drugs. Once the habit of taking drugs has been acquired, people can get hooked on them. More powerful drugs such as heroin and other narcotics are addictive, and most people cannot stop using them without help. Thus, the use of marijuana, because it might lead to further harm, is an unethical practice.

It has been documented medically, however, that marijuana use can help people with certain illnesses. For example, for cancer sufferers who are undergoing chemotherapy and for those with AIDS who are on potent medications, marijuana offers relief from many treatment side effects, such as nausea and lack of appetite. Yet in the United States it is illegal in some states for doctors to prescribe marijuana for these patients, so their suffering continues. Since 1996, however, 25 states have made it legal to prescribe marijuana for medical purposes; nevertheless, the federal government has sought to stop such state legislation. The U.S. Supreme Court ruled in 2005 that only Congress or the states could decide whether medical marijuana use should be made legal, and people in many states are currently lobbying for a relaxation of state laws against its use for medical purposes.[8] In Canada there has been a widespread movement to decriminalize marijuana. While not making the drug legal, decriminalization removes the threat of prosecution even for uses that are not medically related and allows the drug to be taxed. Initiatives are under way in several states to decriminalize the possession of small amounts of marijuana for personal use as well as to make it more widely available to people legally for medical purposes. A major ethical debate is currently raging over this issue in many states and countries.



Coldbath Fields Prison, London, circa 1810. The British criminal justice system around this time was severe: A person could be executed for 350 different crimes, including sheep stealing. As ethical beliefs change over time, so do laws.

The important point to note is that while ethical beliefs lead to the development of laws and regulations to prevent certain behaviors or encourage others, laws themselves change or even disappear as ethical beliefs change. In Britain in 1830 a person could be executed for over 350 different crimes, including sheep stealing. Today the death penalty is no longer legal in Britain. Thus, both ethical and legal rules are *relative:* No absolute or unvarying standards exist to determine how we should behave, and people are caught up in moral dilemmas all the time. Because of this, we have to make ethical choices.

The previous discussion highlights an important issue in understanding the relationship among ethics, law, and business. Throughout the 2010s many scandals plagued major companies such as J.P. Morgan Chase, HSBC, Standard Chartered Bank, ING, Barclays, and Capital One. Managers at some of these companies engaged in risky trades, interest rate manipulation, illegal trade facilitation, drug money laundering, and deception of customers.

In other cases no laws were broken, yet outrage was expressed over perceptions of unethical actions. One example of this is the Occupy Wall Street movement, a protest that began on September 17, 2011, in a park close to New York City's Wall Street financial district. The movement was prompted in part by the perceived unethical influence of the financial services sector on the government. On its web page (occupywallstreet.org), the organization says it is "fighting back against the corrosive power of major banks and multinational corporations over the democratic process, and the role of Wall Street in creating an economic collapse that has caused the greatest recession in generations." It also raised issues of social and economic inequality.

Some of the goals of this protest were to reduce the influence of corporations on government and allow a more balanced distribution of income. While the protesters did not allege that what financial institutions were doing was illegal, they asserted that the actions of financial institutions were not congruent with ethical business practices.

In 2011 President Barack Obama commented on Occupy Wall Street's concerns about the way policies are influenced by the financial sector: "It expresses the frustrations that the American people feel that we had the biggest financial crisis since the Great Depression, huge collateral damage all throughout the country, all across Main Street. And yet you're still seeing some of the same folks who acted irresponsibly trying to fight efforts to crack down on abusive practices that got us into this problem in the first place."[9]

Stakeholders and Ethics

Just as people have to work out the right and wrong ways to act, so do companies. When the law does not specify how companies should behave, their managers must decide the right or ethical way to behave toward the people and groups affected by their actions. Who are the people or groups that are affected by a company's business decisions? If a company behaves in an ethical way, how does this benefit people and society? Conversely, how are people harmed by a company's unethical actions?

stakeholders The people and groups that supply a company with its productive resources and, so, have a claim on and a stake in the company.

The people and groups affected by how a company and its managers behave are called its stakeholders. **Stakeholders** supply a company with its productive resources; as a result, they have a claim on and a stake in the company.[10] Because stakeholders can directly benefit or be harmed by its actions, the ethics of a company and its managers are important to them. Who are a company's major stakeholders? What do they contribute to a company, and what do they claim in return? Here we examine the claims of these stakeholders—stockholders; managers; employees; suppliers and distributors; customers; and community, society, and nation-state as Figure 4.1 depicts.

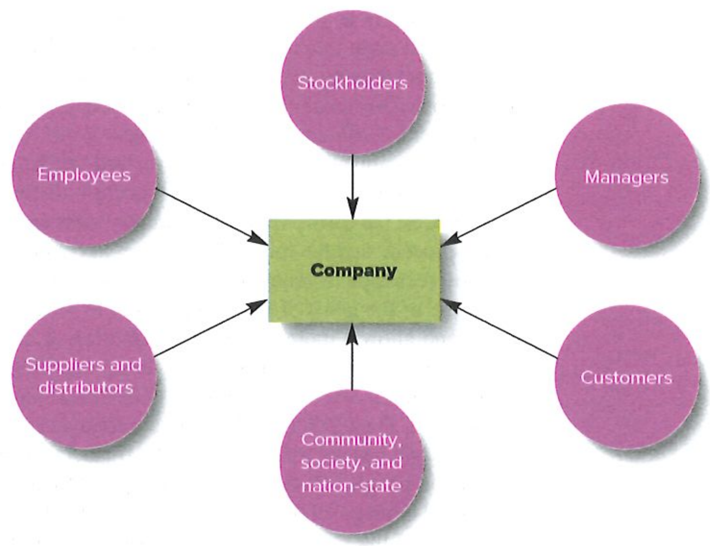
LO4-2 Differentiate between the claims of the different stakeholder groups that are affected by managers and their companies' actions.

Stockholders

Stockholders have a claim on a company because when they buy its stock or shares they become its owners. When the founder of a company decides to publicly incorporate the business to raise capital, shares of the stock of that company are issued. This stock grants its buyers ownership of a certain percentage of the company and the right to receive any future stock dividends. For example, in 2005 Microsoft decided to pay the owners of its 5 billion shares a special dividend payout of $32 billion. Bill Gates received $3.3 billion in dividends based on his stockholding, and he donated this money to the Bill and Melinda Gates Foundation, to which he has reportedly donated over $28 billion to date, with the promise of much more to come; and Warren Buffet committed to donate at least $30 billion to the Gates Foundation over the next decade. The two richest people in the world have decided to give away a large part of their wealth to serve global ethical causes—in particular to address global health concerns such as malnutrition, malaria, tuberculosis, and AIDS. Gates is also donating about $1.8 billion to the Gates Foundation to help eradicate polio as part of the Polio Eradication & Endgame Strategic Plan 2013–2018.[11]

Figure 4.1

Types of Company Stakeholders



Stockholders are interested in how a company operates because they want to maximize the return on their investment. Thus, they watch the company and its managers closely to ensure that management is working diligently to increase the company's profitability.[12] Stockholders also want to ensure that managers are behaving ethically and not risking investors' capital by engaging in actions that could hurt the company's reputation. No company wants the reputation described by the Occupy Wall Street protesters, who alleged that business organizations value money over people and work in the self-interest of a privileged few. However, experts warn businesses not to ignore the movement. Harvard bloggers say the persistence of Occupy Wall Street is "a signal that there is authentic, deep-seated unhappiness with the failings of the U.S. economic system. It's an indicator that economic inequality is perceived as an important issue—one requiring businesses' immediate attention."[13]

Managers

Managers are a vital stakeholder group because they are responsible for using a company's financial, capital, and human resources to increase its performance and thus its stock price.[14] Managers have a claim on an organization because they bring to it their skills, expertise, and experience. They have the right to expect a good return or reward by investing their human capital to improve a company's performance. Such rewards include good salaries and benefits, the prospect of promotion and a career, and stock options and bonuses tied to company performance.

Managers are the stakeholder group that bears the responsibility to decide which goals an organization should pursue to most benefit stakeholders and how to make the most efficient use of resources to achieve those goals. In making such decisions, managers frequently must juggle the interests of different stakeholders, including themselves.[15] These sometimes difficult decisions challenge managers to uphold ethical values because some decisions that benefit certain stakeholder groups (managers and stockholders) harm other groups (individual workers and local communities). For example, in economic downturns or when a company experiences performance shortfalls, layoffs may help cut costs (thus benefiting shareholders) at the expense of the employees laid off. Many U.S. managers have recently faced this difficult decision. Until the 2009 financial crisis sent unemployment soaring over 10 percent, on average about 1.6 million U.S. employees out of a total labor force of 140 million were affected by mass layoffs each year; and over 3 million jobs from the United States, Europe, and Japan have been outsourced to Asia since 2005. Layoff decisions are always difficult: They not only take a heavy toll on workers, their families, and local communities but also

Layoff decisions are always difficult. Bank of America recently announced plans to reduce the workforce in its consumer-banking unit by thousands, as more and more customers are using mobile technology to do their banking.
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mean the loss of the contributions of valued employees to an organization. In 2016, Bank of America announced plans to reduce the workforce in its consumer-banking unit by thousands, explaining that more and more customers are using mobile and online technology instead of local bank branches to do their banking.[16]

As we discussed in Chapter 1, managers must be motivated and given incentives to work hard in the interests of stockholders. Their behavior must also be scrutinized to ensure they do not behave illegally or unethically, pursuing goals that threaten stockholders and the company's interests.[17] Unfortunately, we have seen in the 2010s how easy it is for top managers to find ways to ruthlessly pursue their self-interest at the expense of stockholders and employees because laws and regulations are not strong enough to force them to behave ethically.

In a nutshell, the problem has been that in many companies corrupt managers focus not on building the company's capital and stockholders' wealth but on maximizing their own personal capital and wealth. In an effort to prevent future scandals, the Securities and Exchange Commission (SEC), the government's top business watchdog, has begun to rework the rules governing a company's relationship with its auditor, as well as regulations concerning stock options, and to increase the power of outside directors to scrutinize a CEO. The SEC's goal is to outlaw many actions that were previously classified as merely unethical. For example, companies are now forced to reveal to stockholders the value of the stock options they give their top executives and directors and when they give them these options; this shows how much such payments reduce company profits. Managers and directors can now be prosecuted if they disguise or try to hide these payments. In the 2010s the SEC announced many new rules requiring that companies disclose myriad details of executive compensation packages to investors; already the boards of directors of many companies have stopped giving CEOs perks such as free personal jet travel, membership in exclusive country clubs, and luxury accommodations on "business trips." Also, in 2010 Congress passed new laws preventing the many unethical and illegal actions of managers of banks and other financial institutions that led to the 2009 financial crisis. One of these regulations, the "Volcker Rule," seeks to reduce the chances that banks will put depositors' money at risk.[18]

Indeed, many experts argue that the rewards given to top managers, particularly the CEO and COO, grew out of control in the 2000s. Top managers are today's "aristocrats," and through their ability to influence the board of directors and raise their own pay, they have amassed personal fortunes worth hundreds of millions of dollars. For example, according to a study by the Federal Reserve, U.S. CEOs now get paid about 600 times what the average worker earns, compared to about 40 times in 1980—a staggering increase. In 2016 the median CEO compensation was $10.8 million.[19] We noted in Chapter 1 that besides their salaries, top managers often receive tens of millions in stock bonuses and options—even when their companies perform poorly.

Is it ethical for top managers to receive such vast amounts of money from their companies? Do they earn it? Remember, this money could have gone to shareholders in the form of dividends. It could also have reduced the huge salary gap between those at the top and those at the bottom of the hierarchy. Many people argue that the growing disparity between the rewards given to CEOs and to other employees is unethical and should be regulated. CEO pay has skyrocketed because CEOs are the people who set and control one another's salaries and bonuses; they can do this because they sit on the boards of other companies as outside directors. Others argue that because top managers play an important role in building a company's capital and wealth, they deserve a significant share of its profits. Some recent research has suggested that the companies whose CEO compensation includes a large percentage of stock options tend to experience big share losses more often than big gains, and on average, company performance improves as stock option use declines.[20] The debate over how much money CEOs and other top managers should be paid is still raging, particularly because the financial crisis beginning

in 2009 showed how much money the CEOs of troubled financial companies earned even as their companies' performance and stock prices collapsed. For example, Countrywide Mortgage, which pioneered the subprime business, suffered losses of over $1.7 billion in 2007, and its stock fell 80 percent, yet its CEO, Angelo Mozilo, still received $20 million in stock awards and sold stock options worth $121 million before the company's price collapsed.

Ethics and Nonprofit Organizations

The issue of what is fair compensation for top managers is not limited to for-profit companies; it is one of many issues facing nonprofits. The many ethics scandals that have plagued companies in the 2010s might suggest that the issue of ethics is important only for profit-seeking companies, but this is untrue. There are almost 2 million private nonprofit charitable and philanthropic organizations in the United States, and charges that their managers have acted in unethical and even illegal ways have grown in the 2010s. For example, many states and the federal government are investigating the huge salaries that the top executives of charitable institutions earn.

One impetus for this was the revelation that the NYSE, which is classified as a charitable organization, paid its disgraced top executive, Richard A. Grasso, over $187 million in pension benefits. It turns out that over 80 nonprofits pay their top executives more than $1 million a year in salary, bonus, and other benefits, and the boards of trustees or directors of many of these organizations also enjoy lavish perks and compensation for attendance at board meetings. And unlike for-profit companies, which are required by law to provide detailed reports of their operations to their shareholders, nonprofits do not have shareholders, so the laws governing disclosure are far weaker. As a result, the board and its top managers have considerable latitude to decide how they will spend a nonprofit's resources, and little oversight exists.

To remedy this situation, many states and the federal government are considering new laws that would subject nonprofits to strict Sarbanes-Oxley-type regulations that force the disclosure of issues related to managerial compensation and financial integrity. There are also efforts in progress to strengthen the legal power of the IRS to oversee nonprofits' expenditures so that it has more authority to examine how these organizations spend their resources on managerial and director compensation and perks.

Experts hope that the introduction of new rules and regulations to monitor and oversee how nonprofits spend their funds will result in much more value being created from the funds given by donors. After all, every cent that is spent administering a nonprofit is a cent not being used to help the people or cause for which the money was intended. Ethical issues are involved because some badly run charities spend 70 cents of every dollar on administration costs. And charges have been leveled against charities such as the Red Cross for mishandling the hundreds of millions of dollars they received in donations after Hurricane Katrina struck; changes have been made in the Red Cross to address these issues. Clearly, the directors and managers of all organizations need to carefully consider the ethical issues involved in their decision making.

Employees

A company's employees are the hundreds of thousands of people who work in its various departments and functions, such as research, sales, and manufacturing. Employees expect to receive rewards consistent with their performance. One principal way that a company can act ethically toward employees and meet their expectations is by creating an occupational structure that fairly and equitably rewards employees for their contributions. Companies, for example, need to develop recruitment, training, performance appraisal, and reward systems that do not discriminate against employees and that employees believe are fair.

Suppliers and Distributors

No company operates alone. Every company is in a network of relationships with other companies that supply it with the inputs (such as raw materials, components, contract labor, and clients) that it needs to operate. It also depends on intermediaries such as wholesalers and

retailers to distribute its products to the final customers. Suppliers expect to be paid fairly and promptly for their inputs; distributors expect to receive quality products at agreed-upon prices. Once again, many ethical issues arise in how companies contract and interact with their suppliers and distributors. Important issues concerning safety specifications are governed by the contracts a company signs with its suppliers and distributors, for example; however, lax oversight can have tragic consequences, as the accompanying "Ethics in Action" feature shows.

ETHICS IN ACTION

Keeping Garment Industry Workers Safe

Why have more than 220 international brands and retailers, including Abercrombie & Fitch, American Eagle Outfitters, Fruit of the Loom, and PVH, signed the Accord on Fire and Building Safety in Bangladesh? The accord is a five-year agreement stating that the signing companies and organizations commit to meet the minimum safety standards for the textile industry in Bangladesh.

Could it be that the buying power of consumers in their mid-twenties—consumers very concerned about the plight of the global worker—encouraged brands and retailers to sign the agreement? Sébastien Breteau, founder and chief executive officer of AsiaInspection, a quality control service provider of supplier audits, product inspections, and lab testing for consumer goods and food importers, believes young people have raised awareness of social accountability in global supply chain management. "This generation cares a lot about transparency," he said. "They want to know that what they are buying doesn't kill the planet."[21] This means that organizations that do not monitor their suppliers carefully risk paying a steep price with young consumers.

Several industrial accidents in 2013 catalyzed social accountability in global supply chain management, according to Breteau's firm. Probably the most tragic of the tipping points was the collapse of the Rana Plaza in Dhaka, Bangladesh. The collapse of the eight-story commercial building killed 1,132 workers and injured more than 2,500 on April 24, 2013. The day before the collapse, building inspectors had found cracks in the structure and warned business owners to evacuate. A few shops and a bank heeded the warning, but owners of garment factories in the building ordered employees to come to work. The collapse was the deadliest disaster in the history of the garment industry worldwide.

There are parallels between the collapse of Rana Plaza and a tragedy in the history of American garment factories. In 1911 a fire destroyed the Triangle Shirtwaist Factory and killed 146 garment workers. The factory was on the top floors of a building in Greenwich Village, New York City. When the fire broke out, workers found the exit doors locked from the outside, a common practice at the time to stop theft and unauthorized breaks. Many workers died by jumping out the windows to escape the flames. The outrage that followed the Triangle fire was a catalyst for change in factory conditions, much like the outrage that followed the Rana Plaza collapse. In the aftermath of the fire, the Factory Investigating Commission was formed and, much like the Accord on Fire and Building Safety in Bangladesh, began factory inspections. Many factories in New York City were found to have the same conditions that caused the Triangle fire, such as flammable materials, locked exit doors, and inadequate fire alarms and fire suppression systems. Between 1911 and 1913, 60 new laws were passed to improve factory conditions.

In March 2014 engineering teams organized through the accord issued inspection reports on 10 Bangladesh factories. The reports indicated many factories did not have adequate fire alarm and sprinkler systems and that some fire exits were locked.[22] Also, many factories had dangerously high weight loads on floors, which is believed to be a cause of the Rana Plaza collapse.

Following the Rana Plaza collapse, clients of Breteau's inspection firm have become less reluctant to commit to the creation and enforcement of programs to audit factory working conditions. "Suddenly, we saw a switch in our clients' attitude to social accountability," according to Breteau. "They became very serious about running audit programs through their supply chains."[23] The company's audit programs include quality management standards according to the ISO 9001 or U.S. C-TPAT standards, social compliance according to SA 8000 standards, and ethical trading according to Sedex Ethical Trade Audits.

Will this change in attitudes toward social accountability in global supply chains have a lasting impact? *Forbes* blogger Robert Bowman, managing editor of SupplyChainBrain, a website and magazine covering global supply chains, names several reasons that retailers have failed to take aggressive action to stop unsafe working conditions in the past. From the retailers' point of view, it can be difficult to keep track of complex supply chains. Multiple layers of suppliers and subcontractors in some supply chains make it complicated to know exactly how and where goods are being produced, Bowman says. From the consumer's point of view, shocking revelations of poor labor practices cause temporary indignation. After headlines and media stories about sweatshops and safety violations, shoppers quickly return to being indifferent about how clothing is produced, Bowman says. However, the shocking collapse of Rana Plaza and the resulting signatures on the Accord on Fire and Building Safety in Bangladesh bode well for change in global supply chain ethics.

Many other issues depend on business ethics. For example, numerous products sold in U.S. stores have been outsourced to countries that do not have U.S.-style regulations and laws to protect the workers who make these products. All companies must take an ethical position on the way they obtain and make the products they sell. Commonly, this stance is published on a company's website. Table 4.1 presents part of the Gap's statement about its approach to global ethics (www.gapinc.com).

Customers

Customers are often regarded as the most critical stakeholder group because if a company cannot attract them to buy its products, it cannot stay in business. Thus, managers and employees must work to increase efficiency and effectiveness in order to create loyal customers and attract new ones. They do so by selling customers quality products at a fair price and providing good after-sales service. They can also strive to improve their products over time and provide guarantees to customers about the integrity of their products, like the Soap Dispensary, profiled in the accompanying "Ethics in Action" feature.

Community, Society, and Nation

The effects of the decisions made by companies and their managers permeate all aspects of the communities, societies, and nations in which they operate. *Community* refers to physical locations like towns or cities or to social milieus like ethnic neighborhoods in which companies are located. A community provides a company with the physical and social infrastructure that allows it to operate; its utilities and labor force; the homes in which its managers and employees live; the schools, colleges, and hospitals that serve their needs; and so on.

Through the salaries, wages, and taxes it pays, a company contributes to the economy of its town or region and often determines whether the community prospers or declines. Similarly, a company affects the prosperity of a society and a nation and, to the degree that a company is involved in global trade, all the countries it operates in and thus the prosperity of the global economy. We have already discussed the many issues surrounding global outsourcing and the loss of jobs in the United States, for example.

Table 4.1
Some Principles from the Gap's Code of Vendor Conduct

As a condition of doing business with Gap Inc., each and every factory must comply with this Code of Vendor Conduct. Gap Inc. will continue to develop monitoring systems to assess and ensure compliance. If Gap Inc. determines that any factory has violated this Code, Gap Inc. may either terminate its business relationship or require the factory to implement a corrective action plan. If corrective action is advised but not taken, Gap Inc. will suspend placement of future orders and may terminate current production.

I. General Principles

Factories that produce goods for Gap Inc. shall operate in full compliance with the laws of their respective countries and with all other applicable laws, rules, and regulations.

II. Environment

Factories must comply with all applicable environmental laws and regulations. Where such requirements are less stringent than Gap Inc.'s own, factories are encouraged to meet the standards outlined in Gap Inc.'s statement of environmental principles.

III. Discrimination

Factories shall employ workers on the basis of their ability to do the job, without regard to race, color, gender, nationality, religion, age, maternity, or marital status.

IV. Forced Labor

Factories shall not use any prison, indentured, or forced labor.

V. Child Labor

Factories shall employ only workers who meet the applicable minimum legal age requirement or are at least 15 years of age, whichever is greater. Factories must also comply with all other applicable child labor laws. Factories are encouraged to develop lawful workplace apprenticeship programs for the educational benefit of their workers, provided that all participants meet both Gap Inc.'s minimum age standard of 15 and the minimum legal age requirement.

VI. Wages & Hours

Factories shall set working hours, wages, and overtime premiums in compliance with all applicable laws. Workers shall be paid at least the minimum legal wage or a wage that meets local industry standards, whichever is greater. While it is understood that overtime is often required in garment production, factories shall carry out operations in ways that limit overtime to a level that ensures humane and productive working conditions.

ETHICS IN ACTION

Helping to Keep the Soap Market Green

Soap consumption is not as clean a business as you might think. First, soap is often packaged in plastic, and that's beyond the bar: dishwashing detergent, clothing detergent, shampoos, body washes, liquid hand soaps—they're all in plastic containers. With over 33 million tons of plastic being discarded yearly by Americans, only about 14 percent is recycled or sent to waste-to-energy facilities. The rest goes to landfills, where it may leak pollutants into the soil and water, or into the ocean, where an estimated 100 million tons of plastic debris already threatens the health of marine life.[24]

Second, many soaps have chemicals that contain suspected or known carcinogens (cancer-causing agents). One study of 25 household products found that many of their fragrances emitted hazardous chemicals.[25] One such chemical is triclosan, which is commonly found in soap products. Triclosan is toxic to aquatic plants and animals. When it reacts with chlorine in water, it can cause cancer, nerve disorders, and immune system disorders. It also contributes to antibiotic resistance in bacteria that cause infection in humans.

At the Soap Dispensary in Vancouver, owner Linh Truong sells biodegradable household and personal products free from fillers, dyes, and perfumes. Customers bring their own containers to refill over and over again, and Linh tracks the savings to the environment with each bottle refilled.

To combat the dirty residue of soap consumption, stores like the Soap Dispensary in Vancouver, Canada, are popping up. The Soap Dispensary is a refill store specializing in soaps, household cleaners, and personal care products that are not harmful to humans or the environment. Instead of harsh chemicals, the Soap Dispensary's products are selected to be as free as possible from fillers, dyes, and synthetic perfumes. The products are also biodegradable and animal cruelty–free, and some are vegan certified.

Customers take their own containers back to the store again and again to refill instead of throwing them away, or they can pay a small deposit fee to obtain a reusable container from the store. The store also sells ingredients customers can use to make their own soaps (as well as other products) and conducts classes to teach customers how to make them at home. Classes range from simple soap making to aromatherapy. Besides soap, the store sells nonplastic cleaning supplies, reusable razors, natural beeswax candles, repurposed fabric, and other environmentally friendly items.

Linh Truong and Stewart Lampe, owners of the Soap Dispensary, estimate that in the first two years of the store's existence, it kept more than 12,000 plastic containers from being thrown away.

The store also has provided a venue where customers can purchase locally made products. Among the local brands sold at the Soap Dispensary are Curiosities Tallow Soap and Sadie's Soap. Curiosities Tallow Soap's ingredients include beef fat collected from local butcher shops, and Sadie's Soap's ingredients include hops from locally crafted beer.[26] These locally made soaps and their locally acquired ingredients make a short supply chain that is easier on the environment than a national or international one. When locally owned businesses provide supplies for other locally owned businesses, less fuel and other energy is spent on transportation, creating less pollution in the environment.[27]

The Soap Dispensary tracks the savings to the environment of each bottle refilled, which Truong uses to inspire her customers to keep conserving. Refill stores like the Soap Dispensary make a difference by focusing on one feasible aspect of sustainability. Truong also achieves her mission of reducing waste by encouraging her suppliers to switch to more sustainable packaging and by washing out some delivery containers to return to suppliers for reuse.

"Refilling soap is just one way to do it," she said. "It's just the art of shifting consumers' mentality. Once you start that shift, it can be applied to lots of other things in their lives, and also to how a business is run."[28]

Although the individual effects of the way each McDonald's restaurant operates might be small, for instance, the combined effects of how all McDonald's and other fast-food companies do business are enormous. In the United States alone, more than 3 million people work in the fast-food industry, and many thousands of suppliers, like farmers, paper cup manufacturers, and builders, depend on it for their livelihood. Small wonder, then, that the ethics of the fast-food business are scrutinized closely. This industry was the major lobbyer against attempts to raise the national minimum wage (which was raised to $7.25 an hour in 2009, where it remains in 2016, up from $5.15—a figure that had not changed since 1997), for example, because a higher minimum wage would substantially increase its operating costs. However, responding to protests about chickens raised in cages where they cannot move, McDonald's—the largest egg buyer in the United States—issued new ethical guidelines concerning cage size and related matters that its egg suppliers must abide by if they are to retain its business. What ethical rules does McDonald's use to decide its stance toward minimum pay or minimum cage size?

Business ethics are also important because the failure of a company can have catastrophic effects on a community; a general decline in business activity affects a whole nation.

The decision of a large company to pull out of a community, for example, can threaten the community's future. Some companies may attempt to improve their profits by engaging in actions that, although not illegal, can hurt communities and nations. One of these actions is pollution. For example, many U.S. companies reduce costs by trucking their waste to Mexico, where it is legal to dump waste in the Rio Grande. The dumping pollutes the river from the Mexican side, but the U.S. side of the river is increasingly experiencing pollution's negative effects.

LO4-3 Describe four rules that can help companies and their managers act in ethical ways.

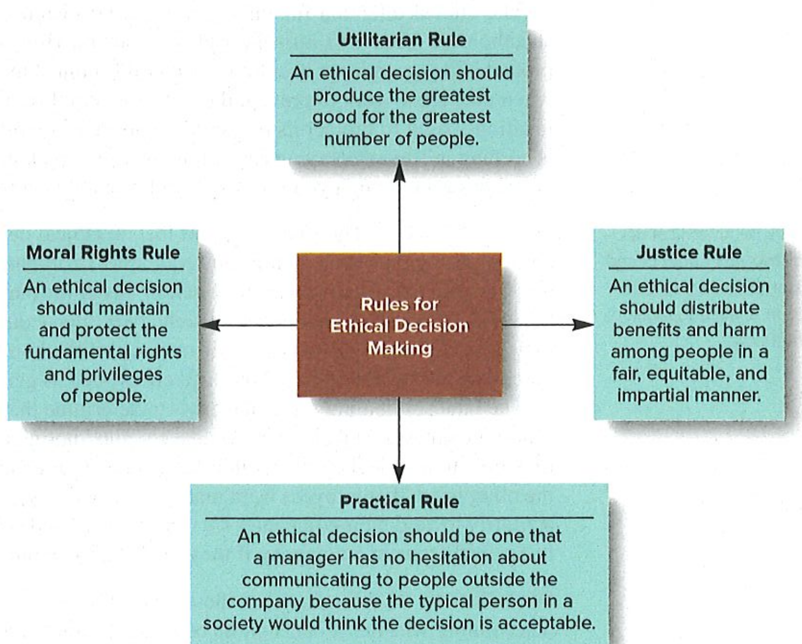
Rules for Ethical Decision Making

When a stakeholder perspective is taken, questions on company ethics abound.[29] What is the appropriate way to manage the claims of all stakeholders? Company decisions that favor one group of stakeholders, for example, are likely to harm the interests of others.[30] High prices charged to customers may bring high returns to shareholders and high salaries to managers in the short run. If in the long run customers turn to companies that offer lower-cost products, however, the result may be declining sales, laid-off employees, and the decline of the communities that support the high-priced company's business activity.

When companies act ethically, their stakeholders support them. For example, banks are willing to supply them with new capital, they attract highly qualified job applicants, and new customers are drawn to their products. Thus, ethical companies grow and expand over time, and all their stakeholders benefit. The results of unethical behavior are loss of reputation and resources, shareholders selling their shares, skilled managers and employees leaving the company, and customers turning to the products of more reputable companies.

When making business decisions, managers must consider the claims of all stakeholders.[31] To help themselves and employees make ethical decisions and behave in ways that benefit their stakeholders, managers can use four ethical rules or principles to analyze the effects of their business decisions on stakeholders: the *utilitarian, moral rights, justice,* and *practical* rules (Figure 4.2).[32] These rules are useful guidelines that help managers decide on the appropriate way to behave in situations where it is necessary to balance a company's self-interest

Figure 4.2
Four Ethical Rules



and the interests of its stakeholders. Remember, the right choices will lead resources to be used where they can create the most value. If all companies make the right choices, all stakeholders will benefit in the long run.[33]

utilitarian rule An ethical decision is a decision that produces the greatest good for the greatest number of people.

UTILITARIAN RULE The **utilitarian rule** is that an ethical decision is a decision that produces the greatest good for the greatest number of people. To decide which is the most ethical course of business action, managers should first consider how different possible courses of business action would benefit or harm different stakeholders. They should then choose the course of action that provides the most benefits, or, conversely, the one that does the least harm, to stakeholders.[34]

The ethical dilemma for managers is this: How do you measure the benefit and harm that will be done to each stakeholder group? Moreover, how do you evaluate the rights of different stakeholder groups, and the relative importance of each group, in coming to a decision? Because stockholders own the company, shouldn't their claims be held above those of employees? For example, managers might face a choice of using global outsourcing to reduce costs and lower prices or continuing with high-cost production at home. A decision to use global outsourcing benefits shareholders and customers but will result in major layoffs that will harm employees and the communities in which they live. Typically, in a capitalist society such as the United States, the interests of shareholders are put above those of employees, so production will move abroad. This is commonly regarded as being an ethical choice because in the long run the alternative, home production, might cause the business to collapse and go bankrupt, in which case greater harm will be done to all stakeholders.

moral rights rule An ethical decision is one that best maintains and protects the fundamental or inalienable rights and privileges of the people affected by it.

MORAL RIGHTS RULE Under the **moral rights rule**, an ethical decision is one that best maintains and protects the fundamental or inalienable rights and privileges of the people affected by it. For example, ethical decisions protect people's rights to freedom, life and safety, property, privacy, free speech, and freedom of conscience. The adage "Do unto others as you would have them do unto you" is a moral rights principle that managers should use to decide which rights to uphold. Customers must also consider the rights of the companies and people who create the products they wish to consume.

From a moral rights perspective, managers should compare and contrast different courses of business action on the basis of how each course will affect the rights of the company's different stakeholders. Managers should then choose the course of action that best protects and upholds the rights of *all* stakeholders. For example, decisions that might significantly harm the safety or health of employees or customers would clearly be unethical choices.

The ethical dilemma for managers is that decisions that will protect the rights of some stakeholders often will hurt the rights of others. How should they choose which group to protect? For example, in deciding whether it is ethical to snoop on employees, or search them when they leave work to prevent theft, does an employee's right to privacy outweigh an organization's right to protect its property? Suppose a coworker is having personal problems and is coming in late and leaving early, forcing you to pick up the person's workload. Do you tell your boss even though you know this will probably get that person fired?

justice rule An ethical decision distributes benefits and harms among people and groups in a fair, equitable, or impartial way.

JUSTICE RULE The **justice rule** is that an ethical decision distributes benefits and harms among people and groups in a fair, equitable, or impartial way. Managers should compare and contrast alternative courses of action based on the degree to which they will fairly or equitably distribute outcomes to stakeholders. For example, employees who are similar in their level of skill, performance, or responsibility should receive similar pay; allocation of outcomes should not be based on differences such as gender, race, or religion.

The ethical dilemma for managers is to determine the fair rules and procedures for distributing outcomes to stakeholders. Managers must not give people they like bigger raises than they give to people they do not like, for example, or bend the rules to help their favorites. On the other hand, if employees want managers to act fairly toward them, then employees need to act fairly toward their companies by working hard and being loyal. Similarly, customers need to act fairly toward a company if they expect it to be fair to them.

PRACTICAL RULE Each of these rules offers a different and complementary way of determining whether a decision or behavior is ethical, and all three rules should be used to sort out the ethics of a particular course of action. Ethical issues, as we just discussed, are

seldom clear-cut, however, because the rights, interests, goals, and incentives of different stakeholders often conflict. For this reason many experts on ethics add a fourth rule to determine whether a business decision is ethical: The **practical rule** is that an ethical decision is one that a manager has no hesitation or reluctance about communicating to people outside the company because the typical person in a society would think it is acceptable. A business decision is probably acceptable on ethical grounds if a manager can answer yes to each of these questions:

practical rule An ethical decision is one that a manager has no reluctance about communicating to people outside the company because the typical person in a society would think it is acceptable.

1. Does my decision fall within the accepted values or standards that typically apply in business activity today?
2. Am I willing to see the decision communicated to all people and groups affected by it—for example, by having it reported on TV or via social media?
3. Would the people with whom I have a significant personal relationship, such as family members, friends, or even managers in other organizations, approve of the decision?

Applying the practical rule to analyze a business decision ensures that managers are taking into account the interests of all stakeholders.[35] After applying this rule, managers can judge if they have chosen to act in an ethical or unethical way, and they must abide by the consequences.

LO4-4 Discuss why it is important for managers to behave ethically.

Why Should Managers Behave Ethically?

Why is it so important that managers, and people in general, act ethically and temper their pursuit of self-interest by considering the effects of their actions on others? The answer is that the relentless pursuit of self-interest can lead to a collective disaster when one or more people start to profit from being unethical because this encourages other people to act in the same way.[36] More and more people jump onto the bandwagon, and soon everybody is trying to manipulate the situation to serve their personal ends with no regard for the effects of their action on others. This is called the "tragedy of the commons."

Suppose that in an agricultural community there is common land that everybody has an equal right to use. Pursuing self-interest, each farmer acts to make the maximum use of the free resource by grazing his or her own cattle and sheep. Collectively, all the farmers overgraze the land, which quickly becomes worn out. Then a strong wind blows away the exposed topsoil, so the common land is destroyed. The pursuit of individual self-interest with no consideration of societal interests leads to disaster for each individual and for the whole society because scarce resources are destroyed.[37] Consider digital piracy: The tragedy that would result if all people were to steal digital media would be the disappearance of music, movie, and book companies as creative people decided there was no point in working hard to produce original songs, stories, and so on.

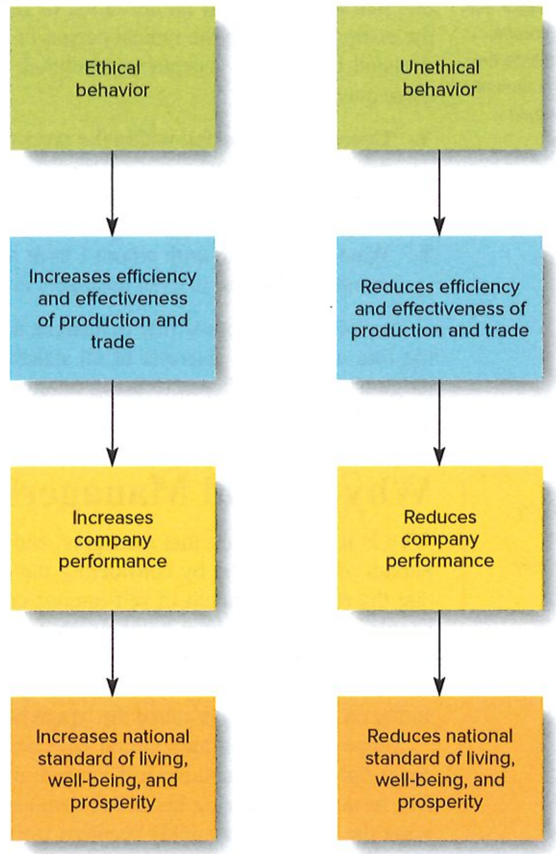
We can look at the effects of unethical behavior on business activity in another way. Suppose companies and their managers operate in an unethical society, meaning one in which stakeholders routinely try to cheat and defraud one another. If stakeholders expect each other to cheat, how long will it take them to negotiate the purchase and shipment of products? When they do not trust each other, stakeholders will probably spend hours bargaining over fair prices, and this is a largely unproductive activity that reduces efficiency and effectiveness.[38] The time and effort that could be spent improving product quality or customer service are lost to negotiating and bargaining. Thus, unethical behavior ruins business commerce, and society has a lower standard of living because fewer goods and services are produced, as Figure 4.3 illustrates.

On the other hand, suppose companies and their managers operate in an ethical society, meaning stakeholders believe they are dealing with others who are basically moral and honest. In this society stakeholders have a greater reason to trust others. **Trust** is the willingness of one person or group to have faith or confidence in the goodwill of another person, even though this puts them at risk (because the other might act in a deceitful way). When trust exists, stakeholders are likely to signal their good intentions by cooperating and providing information that makes it easier to exchange and price goods and services. When one person acts in a trustworthy way, this encourages others to act in the same way. Over time, as greater trust between stakeholders develops, they can work together more efficiently and effectively,

trust The willingness of one person or group to have faith or confidence in the goodwill of another person, even though this puts them at risk.

Figure 4.3

Some Effects of Ethical and Unethical Behavior



which raises company performance (see Figure 4.3). As people see the positive results of acting in an honest way, ethical behavior becomes a valued social norm, and society in general becomes increasingly ethical.

As noted in Chapter 1, a major responsibility of managers is to protect and nurture the resources under their control. Any organizational stakeholders—managers, workers, stockholders, suppliers—who advance their own interests by behaving unethically toward other stakeholders, either by taking resources or by denying resources to others, waste collective resources. If other individuals or groups copy the behavior of the unethical stakeholder, the rate at which collective resources are misused increases, and eventually few resources are available to produce goods and services. Unethical behavior that goes unpunished creates incentives for people to put their unbridled self-interests above the rights of others.[39] When this happens, the benefits that people reap from joining together in organizations disappear quickly.

An important safeguard against unethical behavior is the potential for loss of reputation.[40] **Reputation**, the esteem or high repute that people or organizations gain when they behave ethically, is an important asset. Stakeholders have valuable reputations, which they must protect because their ability to earn a living and obtain resources in the long run depends on how they behave.

reputation The esteem or high repute that individuals or organizations gain when they behave ethically.

If a manager misuses resources and other parties regard that behavior as being at odds with acceptable standards, the manager's reputation will suffer. Behaving unethically in the short run can have serious long-term consequences. A manager who has a poor reputation will have difficulty finding employment with other companies. Stockholders who

see managers behaving unethically may refuse to invest in their companies, and this will decrease the stock price, undermine the companies' reputations, and ultimately put the managers' jobs at risk.[41]

All stakeholders have reputations to lose. Suppliers who provide shoddy inputs find that organizations learn over time not to deal with them, and eventually they go out of business. Powerful customers who demand ridiculously low prices find that their suppliers become less willing to deal with them, and resources ultimately become harder for them to obtain. Workers who shirk responsibilities on the job find it hard to get new jobs when they are fired. In general, if a manager or company is known for being unethical, other stakeholders are likely to view that individual or organization with suspicion and hostility, creating a poor reputation. But a manager or company known for ethical business practices will develop a good reputation.[42]

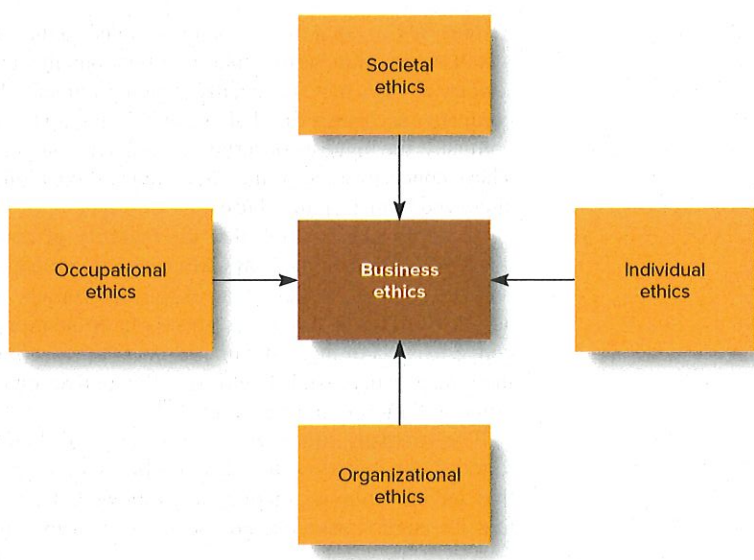
In summary, in a complex, diverse society, stakeholders, and people in general, need to recognize they are part of a larger social group. How they make decisions and act not only affects them personally but also affects the lives of many other people. Unfortunately, for some people, the daily struggle to survive and succeed or their total disregard for others' rights can lead them to lose that bigger connection to other people. We can see our relationships to our families and friends, school, church, and so on. But we must go further and keep in mind the effects of our actions on other people—people who will be judging our actions and whom we might harm by acting unethically. Our moral scruples are like those "other people" but are inside our heads.

Ethics and Social Responsibility

Some companies, like UPS, PepsiCo, Kellogg, Marriott International, and Aflac, are know for their ethical business practices.[43] Other companies such as Enron, which is out of business, or WorldCom, Tyco, and Siemens, which have been totally restructured, repeatedly engaged in unethical and illegal business activities. What explains such differences between the ethics of these companies and their managers?

There are four main determinants of differences in ethics among people, employees, companies, and countries: *societal* ethics, *occupational* ethics, *individual* ethics, and *organizational* ethics—especially the ethics of a company's top managers.[44] (See Figure 4.4.)

Figure 4.4
Sources of Ethics



LO4-5 Identify the four main sources of managerial ethics.

societal ethics Standards that govern how members of a society should deal with one another in matters involving issues such as fairness, justice, poverty, and the rights of the individual.

Societal Ethics

Societal ethics are standards that govern how members of a society should deal with one another in matters involving issues such as fairness, justice, poverty, and the rights of the individual. Societal ethics emanate from a society's laws, customs, and practices and from the unwritten values and norms that influence how people interact with each other. People in a particular country may automatically behave ethically because they have *internalized* (made a part of their morals) certain values, beliefs, and norms that specify how they should behave when confronted with an ethical dilemma.

Societal ethics vary among societies. Countries like Germany, Japan, Sweden, and Switzerland are known as being some of the most ethical countries in the world, with strong values about social order and the need to create a society that protects the welfare of all their citizens. In other countries the situation is different. In many economically poor countries, bribery is standard practice to get things done—such as getting a telephone installed or a contract awarded. In the United States and other economically advanced countries, bribery is considered unethical and has been made illegal.

German engineering firm Siemens reported its involvement in a price-fixing cartel in Brazil so that it could build the Sao Paolo Metro.[45] Brazil ranks 76 out of 168 countries in the corruption perceptions index compiled by Transparency International.[46] However, that perception could soon change. In 2014 Brazil began imposing harsh penalties on any organization operating in Brazil that engages in corruption through its Law to Combat Corruption. The 2016 Olympic Games took place in Brazil, and companies working on the Games were subject to abiding by the new anti-corruption laws.[47]

Countries also differ widely in their beliefs about appropriate treatment for their employees. In general, the poorer a country is, the more likely employees are to be treated with little regard. One issue of concern is how an organization uses the resources of another country. The accompanying "Ethics in Action" feature discusses how the jewelry company Tiffany works to be ethical in its sourcing.

ETHICS IN ACTION

Finding Diamonds in a Rough Ethical Landscape

Tiffany & Co., an American multinational luxury jewelry and specialty retailer, has a stated commitment to "obtaining precious metals and gemstones and crafting our jewelry in ways that are socially and environmentally responsible." On its website the company recognizes the challenges of living up to that commitment. According to the company, the biggest concern is the impact of large, industrial-scale mining activities. These concerns include air, water, and soil contamination; the destruction of cultural sites; and human rights abuses.

"I would like to think that the majority of consumers are genuinely concerned about ethical sourcing," says Michael J. Kowalski, then chairman of the board and CEO. ". . . I do believe that Tiffany customers trust, either explicitly or through assumption, that Tiffany—as part of our brand promise—has in fact attended to those concerns. . . . For many of our customers those promises may be implicit, but it makes them no less real. And should we fail to deliver on those promises, the damage to our brand will most certainly be real."[48]

The company, along with the Jewelers of America and other organizations, has founded the Initiative for Responsible Mining Assurance (IRMA) to help ensure that ethical mining practices are followed. IRMA is creating a certification system for environmentally and socially responsible mining, which took effect in 2015.

The vision statement of IRMA calls for practices that "respect human rights and aspirations of affected communities, provide safe, healthy and respectful workplaces, avoid or minimize harm to the environment and leave positive legacies."[49] IRMA believes that most negative social and environmental impacts can be avoided if responsible mining practices are followed. These practices include careful choice of mine location to preserve ecologically and culturally significant areas, reduction of environmental impact from habitat loss and pollution, informed consent of indigenous peoples for mining, health and safety provisions, and transparency in revenue and corporate governance.[50]

In other ethical sourcing efforts, Tiffany & Co. purchases diamonds only from countries that use the Kimberley Process Certification Scheme (KPCS). This process was established by a United Nations General Assembly Resolution to stop the smuggling of "conflict diamonds" or diamonds that are sold to support violence, war efforts, or other malevolent activities. While the company believes the Kimberley Process has made a difference, it would like to see the definition of "conflict diamonds" expanded to include diamond-related human rights abuses.[51]

"While we certainly have a deep moral commitment to act responsibly—a commitment which emanates not just from myself or the senior management group but from all our Tiffany colleagues around the world—we also believe we have a business imperative to act responsibly," Kowalski said. "We have always prided ourselves on managing Tiffany & Co. for the long term. Witness our storied 177-year history. And over the long term, we have no doubt whatsoever that consumers will increasingly demand responsible behavior, and that effectively meeting that demand will be a source of brand differentiation and ultimately lead to the creation of long-term shareholder value."[52]

Occupational Ethics

occupational ethics
Standards that govern how members of a profession, trade, or craft should conduct themselves when performing work-related activities.

Occupational ethics are standards that govern how members of a profession, trade, or craft should conduct themselves when performing work-related activities.[53] For example, medical ethics govern how doctors and nurses should treat their patients. Doctors are expected to perform only necessary medical procedures and to act in the patient's interest, not their own self-interest. The ethics of scientific research require that scientists conduct their experiments and present their findings in ways that ensure the validity of their conclusions. Like society at large, most professional groups can impose punishments for violations of ethical standards.[54] Doctors and lawyers can be prevented from practicing their professions if they disregard professional ethics and put their own interests first.

Within an organization, occupational rules and norms often govern how employees such as lawyers, researchers, and accountants should make decisions to further stakeholder interests. Employees internalize the rules and norms of their occupational group (just as they do those of society) and often follow them automatically when deciding how to behave. Because most people tend to follow established rules of behavior, people frequently take ethics for granted. However, when occupational ethics are violated, such as when scientists fabricate data to disguise the harmful effects of products, ethical issues come to the forefront. For example, in 2014 Toyota said it had deceived "U.S. consumers by concealing and making deceptive statements about two safety issues involving its vehicles."[55] Millions of Toyota and Lexus vehicles had problems with unintended acceleration. As part of the $1.2 billion settlement with the Justice Department, Toyota's procedures and practices will be assessed by an independent monitor. As of 2016, this is still the largest criminal penalty ever levied against a U.S. automobile company—surpassing GM's $900 million fine for a defective ignition switch in 2015.[56] Table 4.2 lists some failures or lapses in professional ethics according to type of functional manager.

Table 4.2
Some Failures in Professional Ethics

For manufacturing and materials management managers:
- Releasing products that are not of a consistent quality because of defective inputs
- Producing product batches that may be dangerous or defective and harm customers
- Compromising workplace health and safety to reduce costs (for example, to maximize output, employees are not given adequate training to maintain and service machinery and equipment)

For sales and marketing managers:
- Knowingly making unsubstantiated product claims
- Engaging in sales campaigns that use covert persuasive or subliminal advertising to create customer need for the product
- Marketing to target groups such as the elderly, minorities, or children to build demand for a product
- Having ongoing campaigns of unsolicited junk mail, spam, door-to-door, or telephone selling

For accounting and finance managers:
- Engaging in misleading financial analysis involving creative accounting or "cooking the books" to hide salient facts
- Authorizing excessive expenses and perks to managers, customers, and suppliers
- Hiding the level and amount of top management and director compensation

For human resource managers:
- Failing to act fairly, objectively, and in a uniform way toward different employees or kinds of employees because of personal factors such as personality and beliefs
- Excessively encroaching on employee privacy through non-job-related surveillance or personality, ability, and drug testing
- Failing to respond to employee observations and concerns surrounding health and safety violations, hostile workplace issues, or inappropriate or even illegal behavior by managers or employees

Individual Ethics

individual ethics Personal standards and values that determine how people view their responsibilities to others and how they should act in situations when their own self-interests are at stake.

Individual ethics are personal standards and values that determine how people view their responsibilities to other people and groups and, thus, how they should act in situations when their own self-interests are at stake.[57] Sources of individual ethics include the influence of one's family, peers, and upbringing in general. The experiences gained over a lifetime—through membership in social institutions such as schools and religions, for example—also contribute to the development of the personal standards and values that a person uses to evaluate a situation and decide what is the morally right or wrong way to behave. However, suppose you are the son or daughter of a mobster, and your upbringing and education take place in an organized crime context; this affects how you evaluate a situation. You may come to believe that it is ethical to do anything and perform any act, up to and including murder, if it benefits your family or friends. These are your ethics. They are obviously not the ethics of the wider society and, so, are subject to sanction. In a similar way, managers and employees in an organization may come to believe that actions they take to promote or protect their organization are more important than any harm these actions may cause other stakeholders. So they behave unethically or illegally, and when this is discovered, they also are sanctioned—as happened to New York's cab drivers.

In 2009 the New York City taxi commission, which regulates cab fares, began an investigation after it found that one cab driver from Brooklyn, Wasim Khalid Cheema, overcharged 574 passengers in just one month. The taxi drivers' scheme, the commission said, involved 1.8 million rides and cost passengers an average of \$4 to \$5 extra per trip. The drivers pressed a button on the taxi's payment meter that categorized the fare as a Code No. 4, which is charged for trips outside the city to Nassau or Westchester and is twice the rate of

Code No. 1, which is charged for rides within New York City limits. Passengers can see which rate is being charged by looking at the meter, but few bother to do so; they rely on the cab driver's honesty.

After the commission discovered the fraud, it used GPS data, collected in every cab, to review millions of trips within New York City and found that in 36,000 cabs the higher rates were improperly activated at least once; in each of about 3,000 cabs it was done more than 100 times; and 35,558 of the city's roughly 48,000 drivers had applied the higher rate. This scheme cost New York City riders more than $8 million plus all the higher tips they paid as a result of the higher charges. The fraud ranks as one of the biggest in the taxi industry's history, and New York City Mayor Michael R. Bloomberg said criminal charges could be brought against cab drivers.

As a result of the scandal, a notification system in taxicabs now alerts passengers if the higher rate is activated. The message is displayed on a television screen in the back seat of the cab and encourages riders to call the city to report any suspected abuse. Also, officials said taxi companies would eventually be forced to use meters based on a GPS system that would automatically set the charge based on the location of the cab, and drivers would no longer be able to manually activate the higher rate—and cheat their customers. In 2011, 630 taxi drivers had their licenses revoked.

In general, many decisions or behaviors that one person finds unethical, such as using animals for cosmetics testing, may be acceptable to another person. If decisions or behaviors are not illegal, individuals may agree to disagree about their ethical beliefs, or they may try to impose their own beliefs on other people and make those ethical beliefs the law. In all cases, however, people should develop and follow the ethical criteria described earlier to balance their self-interests against those of others when determining how they should behave in a particular situation.

Organizational Ethics

organizational ethics The guiding practices and beliefs through which a particular company and its managers view their responsibility toward their stakeholders.

Organizational ethics are the guiding practices and beliefs through which a particular company and its managers view their responsibility toward their stakeholders. The individual ethics of a company's founders and top managers are especially important in shaping the organization's code of ethics. Organizations whose founders had a vital role in creating a highly ethical code of organizational behavior include UPS, Procter & Gamble, Johnson & Johnson, and the Prudential Insurance Company. Johnson & Johnson's code of ethics—its credo—reflects a well-developed concern for its stakeholders (see Figure 4.5). Company credos, such as that of Johnson & Johnson, are meant to deter self-interested, unethical behavior; to demonstrate to managers and employees that a company will not tolerate people who, because of their own poor ethics, put their personal interests above the interests of other organizational stakeholders and ignore the harm they are inflicting on others; and to demonstrate that those who act unethically will be punished.

Managers or workers may behave unethically if they feel pressured to do so by the situation they are in and by unethical top managers. People typically confront ethical issues when weighing their personal interests against the effects of their actions on others. Suppose a manager knows that promotion to vice president is likely if she can secure a $100 million contract, but getting the contract requires bribing the contract giver with $1 million. The manager reasons that performing this act will ensure her career and future, and what harm would it do, anyway? Bribery is common and she knows that, even if she decides not to pay the bribe, someone else surely will. So what to do? Research seems to suggest that people who realize they have the most at stake in a career sense or a monetary sense are the ones most likely to act unethically. And it is exactly in this situation that a strong code of organizational ethics can help people behave in the right or appropriate way. *The New York Times* detailed code of ethics, for example, was crafted by its editors to ensure the integrity and honesty of its journalists as they report sensitive information.

If a company's top managers consistently endorse the ethical principles in its corporate credo, they can prevent employees from going astray. Employees are much more likely to act unethically when a credo does not exist or is disregarded. Arthur Andersen, for example, did not follow its credo at all; its unscrupulous partners ordered middle managers to shred records

Figure 4.5

Johnson & Johnson's Credo

Our Credo

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens — support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

Johnson & Johnson

Source: © Johnson & Johnson. Used with permission.

that showed evidence of their wrongdoing. Although the middle managers knew this was wrong, they followed the orders because they responded to the personal power and status of the partners and not the company's code of ethics. They were afraid they would lose their jobs if they did not behave unethically, but their actions cost them their jobs anyway.

Top managers play a crucial role in determining a company's ethics. It is clearly important, then, that when making appointment decisions, the board of directors should scrutinize the reputations and ethical records of top managers. It is the responsibility of the board to decide whether a prospective CEO has the maturity, experience, and integrity needed to head a company and be entrusted with the capital and wealth of the organization, on which the fate of all its stakeholders depends. Clearly, a track record of success is not enough to decide whether a top manager is capable of moral decision making; a manager might have achieved

this success through unethical or illegal means. It is important to investigate prospective top managers and examine their credentials. Although the best predictor of future behavior is often past behavior, the board of directors needs to be on guard against unprincipled executives who use unethical means to rise to the top of the organizational hierarchy. For this reason it is necessary that a company's directors continuously monitor the behavior of top executives. In the 2000s this increased scrutiny led to the dismissal of many top executives for breaking ethical rules concerning issues such as excessive personal loans, stock options, inflated expense accounts, and even sexual misconduct. As illustrated in the accompanying "Ethics in Action" feature, the tone set by the founder and leader of an organization can set its ethical tone and business model.

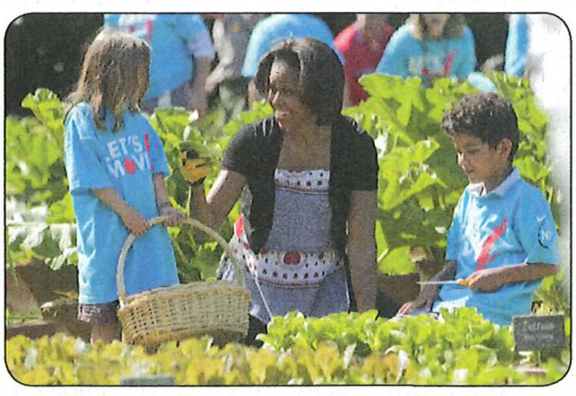
ETHICS IN ACTION

Michelle Obama Leads Challenge to Get Kids Moving

Childhood obesity is an ongoing concern in the United States. According to the U.S. government, more than 33 percent of children are overweight or obese. To help combat the problem, First Lady Michelle Obama started the Let's Move! campaign to end childhood obesity in a generation's time.[58]

There are several causes for the rising numbers of overweight children. Children used to play outside, where they would run around and burn calories. However, with television and video games providing enticing entertainment, children now do their playing mostly indoors on a mobile device. Sugars and fats are much more prevalent in foods, and what we eat today is more processed than ever before, robbing our kids of vital nutrients. Being overweight is unhealthy, especially in children. It may lead to serious health problems such as type 2 diabetes or heart disease. In addition to health risks, being overweight or obese can make children the targets of social discrimination. And the chances that a child will "grow out of it" are small—obese children are likely to become obese adults.[59]

To bring awareness and activism to the problem, Mrs. Obama's campaign targets not just parents and caregivers but the community at large, too. Let's Move! has five pillars: (1) Create a healthy start for children; (2) empower parents and caregivers; (3) provide healthful food in schools; (4) improve access to healthful, affordable foods; and (5) increase physical activity. Mrs. Obama says the movement will continue even after her husband leaves office and she is no longer First Lady.



First Lady Michelle Obama tends the White House garden with a group of children as part of the *Let's Move!* campaign to end childhood obesity.
© Evan Vucci/AP Images

Some accomplishments of the movement so far include the MyPlate and MiPlato icon, which makes it easy to understand healthful food choices; the closing of city streets to create areas where children can be active without worrying about traffic; and higher standards for nutrition and fitness in schools.[60]

Let's Move! collaborates with the Partnership for a Healthier America (PHA), which works with government agencies on industry-specific solutions to fight obesity. Partnership for a Healthier America aims to bring together leaders from all sectors to reduce childhood obesity.

Many food companies also have joined the Let's Move! campaign. For example, Darden, which owns popular restaurant chains such as Olive Garden, has pledged to offer a fruit or vegetable and low-fat milk with every kid's meal and to reduce the amount of calories and

sodium in its menu items by 20 percent over the next 10 years. Walmart committed to lowering the cost of fruits, vegetables, and other healthful options and to work with manufacturers to reduce the amount of sugar and sodium in products throughout the store.

In 2010 the Healthy Weight Commitment Foundation agreed with Let's Move! and PHA to cut 1.5 trillion calories in food products over the next five years. The companies developed lower-calorie options, reduced calories in existing products, and made portion sizes smaller. An independent evaluator announced that by 2014 the foundation had exceeded its goal and removed 6.4 trillion calories from food products.

Being socially responsible can also help the bottom line. As the demand for healthier food items continues to rise, studies are being conducted to see how companies are faring. According to the Hudson Institute, "better-for-you" foods made up about 40 percent of sales for the companies studied but created 70 percent or more in sales growth over a four-year span. The report concludes that "sound strategic planning with a commitment to growing sales of better-for-you foods is good business."[61]

Approaches to Social Responsibility

LO4-6 Distinguish among the four main approaches toward social responsibility that a company can take.

social responsibility The way a company's managers and employees view their duty or obligation to make decisions that protect, enhance, and promote the welfare and well-being of stakeholders and society as a whole.

A company's ethics are the result of differences in societal, organizational, occupational, and individual ethics. In turn, a company's ethics determine its stance on social responsibility. A company's stance on **social responsibility** is the way its managers and employees view their duty or obligation to make decisions that protect, enhance, and promote the welfare and well-being of stakeholders and society as a whole. As we noted earlier, when no laws specify how a company should act toward stakeholders, managers must decide the right, ethical, and socially responsible thing to do. Differences in business ethics can lead companies to diverse positions or views on their responsibility toward stakeholders.

Many kinds of decisions signal a company's beliefs about its obligations to make socially responsible business decisions (see Table 4.3). The decision to spend money on training and educating employees—investing in them—is one such decision; so is the decision to minimize or avoid layoffs whenever possible. The decision to act promptly and warn customers when a batch of defective merchandise has been accidentally sold is another one. Companies that try to hide such problems show little regard for social responsibility. In the past both GM and Ford tried to hide the fact that several of their vehicles had defects that made them dangerous to drive; the companies were penalized with hundreds of millions of dollars in damages for their unethical behavior, and today they move more quickly to recall vehicles to fix problems. In 2014 General Motors CEO Mary Barra admitted that the automaker did not react fast enough when fault was found with an ignition switch that triggered the recall of eventually more than 10 million cars worldwide.[62] On the other side, also in 2014, Fitbit voluntarily recalled its activity tracking wrist band, the Fitbit Force, due to skin rash issues. The company offered to send consumers a return kit and promised a reimbursement check or exchange within two to six weeks of receipt.[63] The way a company announces business problems or admits its mistakes provides strong clues about its stance on social responsibility.

Four Different Approaches

obstructionist approach Companies and their managers choose *not* to behave in a socially responsible way and instead behave unethically and illegally.

The strength of companies' commitment to social responsibility can range from low to high (see Figure 4.6). At the low end of the range is an **obstructionist approach**, in which companies and their managers choose *not* to behave in a socially responsible way. Instead they behave unethically and often illegally and do all they can to prevent knowledge of their behavior from reaching other organizational stakeholders and society at large. Managers at the Manville Corporation adopted this approach when they sought to hide evidence that asbestos causes lung damage; so, too, did tobacco companies when they sought to hide evidence that cigarette smoking causes lung cancer. In 2010 it was revealed that the managers of Lehman Brothers, whose bankruptcy helped propel the 2008–2009 financial crisis, used

Table 4.3
Forms of Socially Responsible Behavior

Managers are being socially responsible and showing their support for their stakeholders when they

- Provide severance payments to help laid-off workers make ends meet until they can find another job.
- Give workers opportunities to enhance their skills and acquire additional education so they can remain productive and do not become obsolete because of changes in technology.
- Allow employees to take time off when they need to and provide health care and pension benefits for employees.
- Contribute to charities or support various civic-minded activities in the cities or towns in which they are located (Target and Levi Strauss both contribute 5 percent of their profits to support schools, charities, the arts, and other good works).
- Decide to keep open a factory whose closure would devastate the local community.
- Decide to keep a company's operations in the United States to protect the jobs of American workers rather than move abroad.
- Decide to spend money to improve a new factory so it will not pollute the environment.
- Decline to invest in countries that have poor human rights records.
- Choose to help poor countries develop an economic base to improve living standards.

loopholes in U.K. law to hide billions of dollars of worthless assets on its balance sheet to disguise its poor financial condition. The fall of Lehman Brothers has been recorded in several films, including the 2009 British television film *The Last Days of Lehman Brothers,* the 2011 American independent film *Margin Call,* and the 2011 HBO movie *Too Big to Fail.* It is also referenced in the 2010 animated film *Despicable Me.* In that film the criminal mastermind Gru goes into a building called the "Bank of Evil," which displays a small banner with the words "Formerly Lehman Brothers."

Top managers at Enron also acted in an obstructionist way when they prevented employees from selling Enron shares in their pension funds while they sold hundreds of millions of dollars' worth of their own Enron stock. Most employees lost all their retirement savings. Senior partners at Arthur Andersen who instructed their subordinates to shred files chose an obstructionist approach that caused not only a loss of reputation but devastation for the organization and for all stakeholders involved. These companies are no longer in business.

defensive approach
Companies and their managers behave ethically to the degree that they stay within the law and strictly abide by legal requirements.

A **defensive approach** indicates at least some commitment to ethical behavior.[64] Defensive companies and managers stay within the law and abide strictly by legal requirements but make no attempt to exercise social responsibility beyond what the law dictates; thus, they can and often do act unethically. These are the kinds of companies, like Computer Associates, WorldCom, and Merrill Lynch, that gave their managers large stock options and bonuses even as company performance was declining rapidly. The managers are the kind who sell their stock in advance of other stockholders because they know their company's performance is about to fall. Although acting on inside information is illegal, it is often hard to prove because top managers have wide latitude regarding when they sell their shares. The founders of most dot-com companies took advantage of this legal loophole to sell billions of dollars of their dot-com shares before their stock prices collapsed. When making ethical decisions, such managers put their own interests first and commonly harm other stakeholders.

accommodative approach
Companies and their managers behave legally and ethically and try to balance the interests of different stakeholders as the need arises.

An **accommodative approach** acknowledges the need to support social responsibility. Accommodative companies and managers agree that organizational members ought to behave legally and ethically, and they try to balance the interests of different stakeholders so the claims of stockholders are seen in relation to the claims of other stakeholders. Managers adopting this approach want to make choices that are reasonable in the eyes of society and want to do the right thing.

This approach is the one taken by the typical large U.S. company, which has the most to lose from unethical or illegal behavior. Generally, the older and more reputable a company, the more likely its managers are to curb attempts by their subordinates to act unethically.

Figure 4.6
Four Approaches to Social Responsibility

Large companies, like GM, Intel, DuPont, and Dell, seek every way to build their companies' competitive advantage. Nevertheless, they rein in attempts by their managers to behave unethically or illegally, knowing the grave consequences such behavior can have on future profitability. Sometimes they fail, however, such as in 2013 when SAC Capital Advisors (among others) agreed to pay $1.8 billion and plead guilty to criminal insider trading charges. To date, this is the biggest insider trading settlement in history.[65]

proactive approach Companies and their managers actively embrace socially responsible behavior, going out of their way to learn about the needs of different stakeholder groups and using organizational resources to promote the interests of all stakeholders.

Companies and managers taking a **proactive approach** actively embrace the need to behave in socially responsible ways. They go out of their way to learn about the needs of different stakeholder groups and are willing to use organizational resources to promote the interests not only of stockholders but also of the other stakeholders such as their employees and communities. U.S. steelmaker Nucor is one such company. In 1977 its visionary CEO Ken Iverson announced that throughout its history Nucor had never laid off one employee, and even though a major recession was raging, it did not plan to start now. In 2009 Nucor CEO Daniel R. DiMicco announced that Nucor again would not start layoffs despite the fact its steel mills were operating at only 50 percent of capacity (compared to 95 percent just months earlier) because customers had slashed orders due to the recession. While rivals laid off thousands of employees, Nucor remained loyal to its employees. However, even though there were no layoffs, both managers and employees took major cuts in pay and bonuses to weather the storm together, as they always had, and they searched for ways to reduce operating costs so they would all benefit when the economy recovered, and by 2012 their sacrifice had paid off: Nucor was doing well again. By 2014, it had reported above-expected earnings per share. In 2015 Nucor paid out an increased cash dividend for the 43rd year in a row.[66]

Proactive companies are often at the forefront of campaigns for causes such as a pollution-free environment; recycling and conservation of resources; the minimization or elimination of the use of animals in drug and cosmetics testing; and the reduction of crime, illiteracy, and poverty. For example, companies such as McDonald's, Google, REI, Whole Foods, and Target all have reputations for being proactive in the support of stakeholders such as their suppliers or the communities in which they operate.

Why Be Socially Responsible?

Several advantages result when companies and their managers behave in a socially responsible manner. First, demonstrating its social responsibility helps a company build a good reputation. Reputation is the trust, goodwill, and confidence others have in a company that lead them to want to do business with it. The rewards for a good company reputation are increased business and improved ability to obtain resources from stakeholders.[67] Reputation thus can enhance profitability and build stockholder wealth, and behaving responsibly socially is the economically right thing to do because companies that do so benefit from increasing business and rising profits.

A second major reason for companies to act responsibly toward employees, customers, and society is that, in a capitalist system, companies as well as the government, have to

bear the costs of protecting their stakeholders, providing health care and income, paying taxes, and so on. So if all companies in a society act responsibly, the quality of life as a whole increases.

Moreover, how companies behave toward their employees determines many of a society's values and norms and the ethics of its citizens, as already noted. It has been suggested that if all organizations adopted a caring approach and agreed that their responsibility is to promote the interests of their employees, a climate of caring would pervade the wider society. Experts point to Japan, Sweden, Germany, the Netherlands, and Switzerland as countries where organizations are highly socially responsible and where, as a result, crime, poverty, and unemployment rates are relatively low, literacy rates are relatively high, and sociocultural values promote harmony between different groups of people. Business activity affects all aspects of people's lives, so how business behaves toward stakeholders affects how stakeholders behave toward business. You "reap what you sow," as the adage goes.

The Role of Organizational Culture

Although an organization's code of ethics guides decision making when ethical questions arise, managers can go one step further by ensuring that important ethical values and norms are key features of an organization's culture. For example, Herb Kelleher and Coleen Barrett created Southwest Airlines's culture in which promoting employee well-being is a main company priority; this translates into organizational values and norms dictating that layoffs should be avoided and employees should share in the profits the company makes.[68] Google, UPS, and Toyota are among the many companies that espouse similar values. When ethical values and norms such as these are part of an organization's culture, they help organizational members resist self-interested action because they recognize that they are part of something bigger than themselves.[69]

Managers' roles in developing ethical values and standards in other employees are important. Employees naturally look to those in authority to provide leadership, just as a country's citizens look to its political leaders, and managers become ethical role models whose behavior is scrutinized by subordinates. If top managers are perceived as being self-interested and not ethical, their subordinates are not likely to behave in an ethical manner. Employees may think that if it's all right for a top manager to engage in dubious behavior, it's all right for them, too, and for employees this might mean slacking off, reducing customer support, and not taking supportive actions to help their company. The actions of top managers such as CEOs and the president of the United States are scrutinized so closely for ethical improprieties because their actions represent the values of their organizations and, in the case of the president, the values of the nation.

ethics ombudsperson
A manager responsible for communicating and teaching ethical standards to all employees and monitoring their conformity to those standards.

Managers can also provide a visible means of support to develop an ethical culture. Increasingly, organizations are creating the role of ethics officer, or **ethics ombudsperson**, to monitor their ethical practices and procedures. The ethics ombudsperson is responsible for communicating ethical standards to all employees, designing systems to monitor employees' conformity to those standards, and teaching managers and employees at all levels of the organization how to respond to ethical dilemmas appropriately.[70] Because the ethics ombudsperson has organizationwide authority, organizational members in any department can communicate instances of unethical behavior by their managers or coworkers without fear of retribution. This arrangement makes it easier for everyone to behave ethically. In addition, ethics ombudspeople can provide guidance when organizational members are uncertain about whether an action is ethical. Some organizations have an organizationwide ethics committee to provide guidance on ethical issues and help write and update the company code of ethics.

Ethical organizational cultures encourage organizational members to behave in a socially responsible manner. As mentioned earlier in this chapter, one company epitomizing an ethical, socially responsible firm is Johnson & Johnson (J&J). The ethical values and norms in Johnson & Johnson's culture, along with its credo, have guided its managers to make the right decision in difficult situations for decades.

Summary and Review

THE NATURE OF ETHICS Ethical issues are central to how companies and their managers make decisions, and they affect not only the efficiency and effectiveness of company operations but also the prosperity of the nation. The result of ethical behavior is a general increase in company performance and in a nation's standard of living, well-

LO4-1 being, and wealth. An ethical dilemma is the quandary people find themselves in when they have to decide if they should act in a way that might help another person or group and is the right thing to do, even though it might go against their own self-interest. Ethics are the inner guiding moral principles, values, and beliefs that people use to analyze or interpret a situation and then decide what is the right or appropriate way to behave.

Ethical beliefs alter and change as time passes, and as they do so, laws change to reflect the changing ethical beliefs of a society.

LO4-2, 4-4 **STAKEHOLDERS AND ETHICS** Stakeholders are people and groups who have a claim on and a stake in a company. The main stakeholder groups are stockholders, managers, employees, suppliers and distributors, customers, and the community, society, and nation. Companies and their managers need to make ethical business decisions that promote the well-being of their stakeholders and avoid doing them harm.

LO4-3, 4-5 **ETHICS AND DECISION MAKING** To determine whether a business decision is ethical, managers can use four ethical rules to analyze it: the utilitarian, moral rights, justice, and practical rules. Managers should behave ethically because this avoids the tragedy of the commons and results in a general increase in efficiency, effectiveness, and company performance. The main determinants of differences in a manager's, company's, and country's business ethics are societal, occupational, individual, and organizational.

LO4-6 **ETHICS AND SOCIAL RESPONSIBILITY** A company's stance on social responsibility is the way its managers and employees view their duty or obligation to make decisions that protect, enhance, and promote the welfare and well-being of stakeholders and society as a whole.

LO4-6 **ETHICS AND SOCIAL RESPONSIBILITY** There are four main approaches to social responsibility: obstructionist, defensive, accommodative, and proactive. The rewards from behaving in a socially responsible way are a good reputation, the support of all organizational stakeholders, and thus superior company performance.

Management in Action

Topics for Discussion and Action

Discussion

1. What is the relationship between ethics and the law? [LO4-1]
2. Why do the claims and interests of stakeholders sometimes conflict? [LO4-2]
3. Why should managers use ethical criteria to guide their decision making? [LO4-3]
4. As an employee of a company, what are some of the most unethical business practices that you have encountered in its dealings with stakeholders? [LO4-4]
5. What are the main determinants of business ethics? [LO4-5]

Action

6. Find a manager and ask about the most important ethical rules he or she uses to make the right decisions. [LO4-3]
7. Find an example of (a) a company that has an obstructionist approach to social responsibility and (b) one that has an accommodative approach. [LO4-6]

Building Management Skills

Dealing with Ethical Dilemmas [LO4-1, 4-4]

Use the chapter material to decide how you, as a manager, should respond to each of the following ethical dilemmas:

1. You are planning to leave your job to go work for a competitor; your boss invites you to an important meeting where you will learn about new products your company will be bringing out next year. Do you go to the meeting?
2. You're the manager of sales in an expensive sports car dealership. A young executive who has just received a promotion comes in and wants to buy a car that you know is out of her price range. Do you encourage the executive to buy it so you can receive a big commission on the sale?
3. You sign a contract to manage a young rock band, and that group agrees to let you produce their next five records, for which they will receive royalties of 5 percent. Their first record is a smash hit and sells millions. Do you increase their royalty rate on future records?

Managing Ethically [LO4-3, 4-5]

Apple Juice or Sugar Water?

In the early 1980s Beech-Nut, a maker of baby foods, was in grave financial trouble as it tried to compete with Gerber Products, the market leader. Threatened with bankruptcy if it could not lower its operating costs, Beech-Nut entered an agreement with a low-cost supplier of apple juice concentrate. The agreement would save the company over $250,000 annually when every dollar counted. Soon one of Beech-Nut's food scientists became concerned about the quality of the concentrate. He believed it was not made from apples alone but contained large quantities of corn syrup and cane sugar. He brought this information to the attention of top managers at Beech-Nut, but they were obsessed with the need to keep costs down and chose to ignore his concerns. The company continued to produce and sell its product as pure apple juice.[71]

Eventually, investigators from the U.S. Food and Drug Administration (FDA) confronted Beech-Nut with evidence that the concentrate was adulterated. The top managers issued denials and quickly shipped the remaining stock of apple juice to the market before their inventory could be seized. The scientist who had questioned the purity of the apple juice had resigned from Beech-Nut, but he decided to blow the whistle on the company. He told the FDA that Beech-Nut's top management had known of the problem

with the concentrate and had acted to maximize company profits rather than to inform customers about the additives in the apple juice. In 1987 the company pleaded guilty to charges that it had deliberately sold adulterated juice and was fined over $2 million. Its top managers were also found guilty and were sentenced to prison terms. The company's reputation was ruined, and it was eventually sold to Ralston Purina, now owned by Nestlé, which installed a new management team and a new ethical code of values to guide future business decisions.

Questions

1. Why is it that an organization's values and norms can become too strong and lead to unethical behavior?
2. What steps can a company take to prevent this problem—to stop its values and norms from becoming so inwardly focused that managers and employees lose sight of their responsibility to their stakeholders?

Small Group Breakout Exercise

Is Chewing Gum the "Right" Thing to Do? [LO4-1, 4-3]

Form groups of three or four people, and appoint one member as the spokesperson who will communicate your findings to the class when called on by the instructor. Then discuss the following scenario:

In the United States, the right to chew gum is taken for granted. Although it is often against the rules to chew gum in a classroom, church, and so on, it is legal to do so on the street. If you possess or chew gum on a street in Singapore, you can be arrested. Chewing gum has been made illegal in Singapore because those in power believe it creates a mess on pavements and feel that people cannot be trusted to dispose of their gum properly and, thus, should have no right to use it.

1. What makes chewing gum acceptable in the United States but unacceptable in Singapore?
2. Why can you chew gum on the street but not in a church?
3. How can you use ethical principles to decide when gum chewing is ethical or unethical and if and when it should be made illegal?

Exploring the World Wide Web [LO4-2, 4-5]

Check out *Fortune*'s list of the World's Most Admired Companies (http://fortune.com/worlds-most-admired-companies/). *Fortune* puts this list together each year based on ratings from executives, directors, and analysts.

1. Select a company on the list and go to that company's web page. How would you describe the company's organizational ethics?
2. What do you believe are the occupational ethics of the people who work at the company?

Be the Manager [LO4-3]

Creating an Ethical Code

You are an entrepreneur who has decided to go into business and open a steak and chicken restaurant. Your business plan requires that you hire at least 20 people as chefs, waiters, and so on. As the owner, you are drawing up a list of ethical principles that each of these people will receive and must agree to when he or she accepts a job offer. These principles outline your view of what is right or acceptable behavior and what will be expected both from you and from your employees.

Create a list of the five main ethical rules or principles you will use to govern how your business operates. Be sure to spell out how these principles relate to your stakeholders; for example, state the rules you intend to follow in dealing with your employees and customers.

Bloomberg Case in the News

Can a Bunch of Doctors Keep an $8 Billion Secret? Not on Twitter [LO4-1, 4-3, 4-6]

In New Orleans Monday, a major medical organization attempted a feat perhaps as hard as treating the disease doctors were there to discuss. They asked a packed convention hall of attendees not to tweet the confidential, market-moving data they had flown in to see.

It didn't work.

In an unusual arrangement, the American Diabetes Association let hundreds, if not thousands, of in-person attendees see new data on Novo Nordisk A/S's blockbuster diabetes treatment Victoza more than an hour before its official release to the public and the markets. That's atypical for such sensitive data, which are usually shared only with journalists and researchers who have agreed to abide by strict terms, under threat of losing future access.

As the Monday afternoon presentation neared, attendees posted on Twitter pictures of the packed hall, of the crowds waiting to get in, and of the projection screens touting the trial's name: "LEADER."

After warning attendees not to share the information they were about to post, presenters in the hall put up slides showing that Bagsvaerd, Denmark-based Novo's drug, cut heart attacks and strokes by 13 percent and improved survival, while also lowering blood sugar rates and a host of other complications. While good news for diabetics, it was less than investors had hoped.

Tweets

Within minutes, some Twitter accounts were posting pictures of the charts, including key slides that showed the drug's success in reducing deaths. And as fast as the posts went up, the medical society's communications team issued online pleas for them to stop.

"#2016ADA slides include unpublished data and are the intellectual property of the presenters," the association tweeted at accounts who posted the data. "Please delete immediately."

"Wow—that was fast. Just got slammed for posting embargoed data from the session. Better stop :-(" was posted by the account @Loenborg-Madsen, which put up several pictures containing slides [of] the presentation. Attempts to get a person associated with the account to comment were unsuccessful.

It was too little, too late. Some of the tweets had already been retweeted by others, making it impossible to scrub the information from the web. One account, @AndyBiotech, whose online description claims he's an investor, retweeted the images to his more than 18,000 followers. An attempt to reach the person behind the account wasn't immediately successful.

Shares Drop

On Tuesday, Novo's shares fell 5.6 percent to 343 kroner, for their biggest one-day drop since February—confirmation of how important the information was to the market. The decline represented about a 52 billion kroner ($7.77 billion) decline in market value.

Officials from the ADA and Novo Nordisk didn't respond to requests for comment on the way the events of the day unfolded. Earlier Monday, a Novo spokeswoman said a detailed press release after the embargo lifted was sufficient, since the company had previously communicated the general results of the study.

The meeting organizers appeared aware of the potential for a leak. The moderator at the session, Matthew Riddle, an endocrinologist from Oregon Health & Science University in Portland, announced the embargo date and time at the start of the session, and the restrictions on sharing the data were noted on multiple slides.

Not the First Time

It's not the first time medical meeting organizers have tried to restrict the distribution of information from the event they are running, said Ivan Oransky, global editorial director of MedPage Today. Oransky runs the Embargo Watch website, which tracks leaks of confidential medical and scientific data. While the ADA in particular has improved in recent years, Monday's events were a backslide, he said in a telephone interview.

"You can't embargo something that is being discussed publicly," Oransky said. "Why are they trying to control the flow of information, especially in this case where the results could influence public health and the markets? Hopefully other organizations won't take this as a signal they can do the same thing."

Source: Cortez, Michelle, "Can a Bunch of Doctors Keep an $8 Billion Secret? Not on Twitter," *Bloomberg*, June 14, 2016. Used with permission of Bloomberg.

Questions for Discussion

1. Do you think it was unethical that the attendees tweeted out information about the new drug and results of the study? Why or why not?
2. How have social media platforms such as Twitter and Facebook changed the discussion about confidentiality and social responsibility? Explain.
3. Suppose you were the marketing director at a pharmaceutical company that had just received promising results about a new drug still in the development stage. What ethical responsibilities do you have to keep the information confidential?

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