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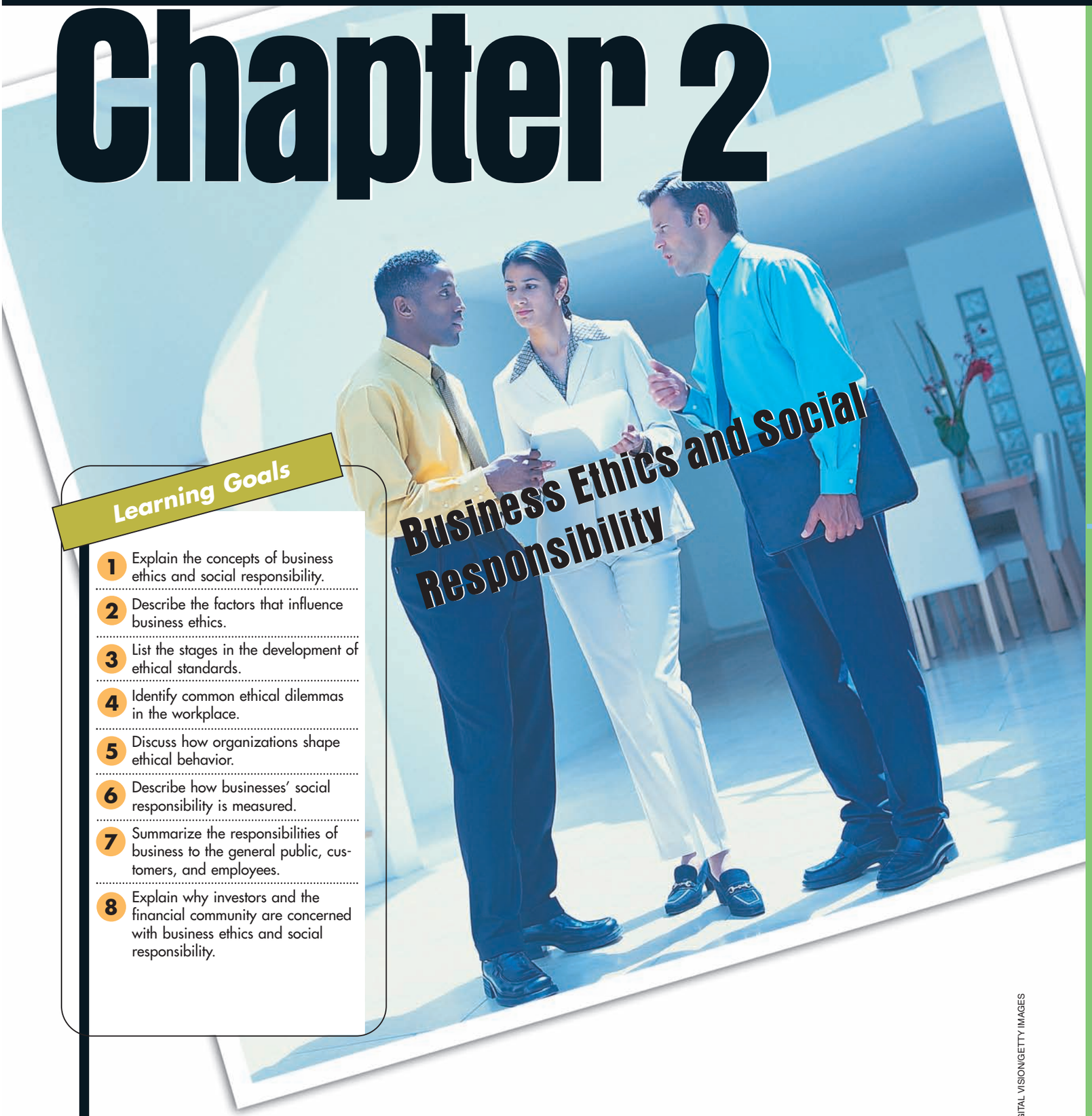
Chapter 2



Business Ethics and Social Responsibility

Learning Goals

1. Explain the concepts of business ethics and social responsibility.
2. Describe the factors that influence business ethics.
3. List the stages in the development of ethical standards.
4. Identify common ethical dilemmas in the workplace.
5. Discuss how organizations shape ethical behavior.
6. Describe how businesses' social responsibility is measured.
7. Summarize the responsibilities of business to the general public, customers, and employees.
8. Explain why investors and the financial community are concerned with business ethics and social responsibility.

DIGITAL VISION/GETTY IMAGES

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When a small café in Waitsfield, Vermont, opened for business in 1981, owner Bob Stiller didn't expect that his fresh-roast business would grow into a $137 million firm or become one of the nation's largest specialty-coffee manufacturers. But that's exactly what happened. Thanks to the high quality of Green Mountain's fresh-roasted blends and its commitment to a set of highly ethical guiding principles, the company has more than 7,000 wholesale clients and thousands of mail-order and Internet customers around the country. Its ethical guidelines put the health of the environment second only to passion for coffee—and rank ethics above all. The company's Web site emphasizes Green Mountain's social conscience: "We create the ultimate coffee experience in every life we touch

PHOTODISC/GETTY IMAGES

Green Mountain Cares about More Than Coffee

from tree to cup, transforming the way the world understands business."

As the company has grown, Green Mountain Coffee Roasters has expanded the range of its commitments to include not only making wise use of the world's resources but also safeguarding the welfare of all those it deals with, from customers at home to coffee farmers far away. When it comes to the environment, Green Mountain, now headquartered in Waterbury, Vermont, has three core values:

- to consider the environmental impact of its actions in every decision
- to seek continuous environmental innovation in its products and programs
- to promote employee awareness of and participation in environmental efforts

The company works hard to put these values into practice. For instance, National Wildlife Blend and National Wildlife Decaf are two certified organic blends Green Mountain developed in cooperation with the National Wildlife Federation. These coffees offer consumers an alternative to inexpensive commercial coffees that must be grown in full sun, which means large-scale land clearing for coffee-growing areas and the destruction of bird and other wildlife habitats. The National Wildlife cobranded coffees are made from shade-grown beans harvested by trusted small-scale farms in Mexico and Peru. Green Mountain is also a staunch supporter of fair trade pricing, which guarantees farmers fair prices for their crops so that "they can afford to feed their families, keep their kids in school and invest in the quality of their coffee."

To contribute to the communities in which it operates, Green Mountain encourages its nearly 600 employees to volunteer their time and expertise. Its Community Action for Employees (CAFÉ) program provides paid time off for community service, including in a recent year nearly 2,000 hours of employee time donated to schools, fire departments, rescue squads, and other community organizations. Employees even volunteer to visit Mexican and Central American coffee farms to help farmers improve their families' and their communities' healthcare and housing.

Green Mountain's corporate-wide efforts to help its communities include financial support for charitable organizations such as the United Way, the Salvation Army, and the Red Cross, as well as for many local organizations such as libraries, schools, and food programs. The company also created two matching funds to supplement the money donated by employees to aid relief of the 2004 tsunami

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that struck Sumatra, where many coffee growers live and work, and it continues to plan long-term strategies to provide assistance there. In addition to such efforts, the company each year contributes at least 5 percent of its pretax profits to social programs, and it has been frequently recognized for its good works by *Forbes* magazine in its annual list of "200 Best Small Companies" and *Business Ethics* magazine's "100 Best Corporate Citizens."

Within its organization, Green Mountain upholds the values of open dialogue and communication. The firm appreciates employee differences and tries to find opportunity in conflict and continuous learning. Teamwork, shared ownership and use of resources, and a commitment to personal excellence that includes self-awareness and respect all encourage leadership throughout the organization. Last but not least in this company's set of guiding values is to be "a force for good in the world." But good business decisions remain paramount. Says CEO Stiller, "To help the world, we have to be successful. If we help the world and go out of business, we're not going to help anybody."[1]

ChapterOverview

The values that drive Green Mountain's operations at home and abroad are not unique in the world of business. Many firms are concerned about the environment and their societies. Sometimes that means growing more slowly than they might or reducing short-term profits for longer, sustained benefits. Even Green Mountain faces tough decisions, for example, if one of its small-scale suppliers produces beans the firm must reject for quality reasons or because it has reached its production limit.

But although most organizations strive to combine ethical behavior with profitable operation, some large and prominent organizations have struggled to overcome major ethical lapses in recent years. Ethical failures in a number of large or well-known firms led to lawsuits, indictments, fines, guilty pleas, pleas of ignorance, jail sentences for high-profile executives, the financial failures of several powerful U.S. businesses, job losses for thousands of former employees at these firms, and the loss of billions of dollars in investors' savings that had been held as stock shares in these companies. Troubled firms included Enron, Tyco, MCI (formerly WorldCom), Global Crossing, the investment firm Credit Suisse First Boston, and even the venerable auction house Sotheby's.

The image of the CEO—and of business in general—suffered as the evening news carried dramatic pictures of the so-called perp walk—in which indicted and handcuffed corporate executives were paraded before the media in an exercise previously reserved for local criminals. Following a series of disclosures made in congressional investigations and in civil and criminal investigations conducted by state attorneys general, in 2002 Congress enacted the **Sarbanes-Oxley Act** to correct these abuses by adding oversight for the nation's major companies and a special oversight board to regulate public accounting firms that audit the financial records of these corporations. In 2004 the Federal Sentencing Commission strengthened its guidelines for ethics compliance programs, and more and more firms began to pay attention to formulating more explicit standards and procedures for ethical behavior. Companies were also forced to recognize the enormous impact of a good example, as it became clear that stated ethical values mean little if they are not being strictly followed at the very highest levels of the organization.

As we discussed in Chapter 1, the underlying aim of business is to serve customers at a profit. But most companies try to do more than that, looking for ways to give back to customers, society, and the environment. Sometimes they face difficult questions in the process. When does a company's self-interest conflict with society's and customers' well-being? And must the goal of seeking profits conflict with upholding high principles of right and wrong? In response to the second question, a growing number of businesses of all sizes are answering no.

CONCERN FOR ETHICAL AND SOCIETAL ISSUES

An organization that wants to prosper over the long term cannot do so without considering **business ethics,** the standards of conduct and moral values governing actions and decisions in the work environment. Businesses also must take into account a wide range of social issues,

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including how a decision will affect the environment, employees, and customers. These issues are at the heart of social responsibility, whose primary objective is the enhancement of society's welfare through philosophies, policies, procedures, and actions. In short, businesses must find the delicate balance between doing what is right and doing what is profitable.

In business, as in life, deciding what is right or wrong in a given situation does not always involve a clear-cut choice. Firms have many responsibilities—to customers, to employees, to investors, and to society as a whole. Sometimes conflicts arise in trying to serve the different needs of these separate constituencies. The ethical values of executives and individual employees at all levels can influence the decisions and actions a business takes. Throughout your own business career, you will encounter many situations in which you will need to weigh right and wrong before making a decision or taking action. So we begin our discussion of business ethics by focusing on individual ethics.

Business ethics are also shaped by the ethical climate within an organization. Codes of conduct and ethical standards play increasingly significant roles in businesses in which doing the right thing is both supported and applauded. This chapter demonstrates how a firm can create a framework to encourage—and even demand—high standards of ethical behavior and social responsibility from its employees. The chapter also considers the complex question of what business owes to society and how societal forces mold the actions of businesses. Finally, it examines the influence of business ethics and social responsibility on global business.

Sarbanes-Oxley Act federal legislation designed to deter and punish corporate and accounting fraud and corruption and to protect the interests of workers and shareholders through enhanced financial disclosures, criminal penalties on CEOs and CFOs who defraud investors, safeguards for whistle-blowers, and establishment of a new regulatory body for public accounting firms.

business ethics standards of conduct and moral values involving right and wrong actions arising in the work environment.

assessment check

1. To whom do businesses have responsibilities?
2. If a firm is meeting all its responsibilities to others, why do ethical conflicts arise?

THE NEW ETHICAL ENVIRONMENT

Business ethics are now in the spotlight as never before. High-profile investigations, lawsuits, arrests, and convictions, as well as business failures due to fraud and corruption, have created a long string of headline news. While these events have brought about rapid change in many areas and new laws to prevent them from happening again, they have also obscured for many people the fact that most companies and their leaders are highly ethical. The National Business Ethics Survey found that more than 80 percent of employees believed top management in their organizations kept promises and commitments, and most believed that honesty and respect were more prevalent than a few years ago.[2]

Most business owners and managers have built and maintained enduring companies without breaking the rules. One example of a firm with a longstanding commitment to ethical practice is Johnson & Johnson, the giant multinational manufacturer of healthcare products. The most admired pharmaceutical maker and the ninth-most-admired company in the world, according to *Fortune*, Johnson & Johnson has abided by the same basic code of ethics, its well-known Credo, for more than 50 years. The Credo, reproduced in Figure 2.1, remains the ethical standard against which the company's employees periodically evaluate how well their firm is performing. Management is pledged to address any lapses that are reported.[3]

Many CEOs personify the best in management practices and are highly respected for their integrity, honesty, and business ethics. Jeff Immelt, General Electric's CEO, lists four things needed to keep the company at the top of the "most valuable" and "most admired" lists: Virtue first, followed by execution, growth, and great people. Immelt began by appointing the company's first vice president of corporate citizenship, Bob Corcoran, who started a program for reviewing more than 3,000 of GE's overseas suppliers for compliance with labor, health, and safety standards. In its other workforce programs, the company now offers domestic partner benefits to gay employees and has recently won awards for promoting women and African

"They Said It"

"Don't major in P.E. and try to run a major company."
—Jim Blackwood
Laid-off WorldCom employee, on the conviction of former CEO Bernard Ebbers

"They Said It"

"Start with what is right rather than what is acceptable."
—Peter Drucker (1909–2005)
American business philosopher and author

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Figure 2.1 Johnson & Johnson 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.

Source: "Our Company: Our Credo," Johnson & Johnson Web site, accessed June 7, 2006, http://www.jnj.com.

Americans to executive positions. It began an extensive healthcare project in Ghana and purchased companies that purify water, manufacture solar-energy equipment, and produce wind energy—overall doubling its research budget for investigating environmentally sound technologies. "Good leaders give back," says Immelt. "The era we live in belongs to people who believe in themselves but are focused on the needs of others."[4]

However, not all companies set and meet high ethical standards. A survey by Public Agenda and the Kettering Foundation found that typical Americans, interviewed in focus groups, thought that greed and poor values had led many companies astray from their moral bearings, and that a major ethical priority for business should be preserving jobs. Executives interviewed for the study believed that jobs were a business, rather than an ethical, issue.[5]

With passage of the Sarbanes-Oxley Act of 2002, which establishes new rules and regulations for securities trading and accounting practices, a company is also required to publish its code of ethics, if it has one, and inform the public of any changes made to it. The new law may actually motivate even more firms to develop written codes and guidelines for ethical business behavior. The federal government also created the U.S. Sentencing Commission to institutionalize ethics compliance programs that would establish high ethical standards and end corporate misconduct. The requirements for such programs are shown in Table 2.1.

The current ethical environment of business also includes the appointment of new corporate officers specifically charged with deterring wrongdoing and ensuring that ethical standards are met. Ethics compliance officers, whose numbers are rapidly rising, are responsible for conducting employee training programs that help spot potential fraud and abuse within the firm, investigating sexual harassment and discrimination charges, and monitoring any potential conflicts of interest. In some firms, such as Molson Coors, the ethics training program is closely linked to the audit department and the integrity of the company's financial statements.[6] This last responsibility is more important than ever, now that the Sarbanes-Oxley Act requires financial officers and CEOs to personally certify the validity of companies' financial statements.

"They Said It"

"Be the change you want to see in the world."
—Mohandas K. Gandhi (1869–1948) Indian nationalist leader

Individuals Make a Difference

In today's business environment, individuals can make the difference in ethical expectations and behavior. As executives, managers, and employees demonstrate their personal ethical principles—or lack of ethical principles—the expectations and actions of those who work for and with them can change.

What is the current status of individual business ethics in the United States? Although ethical behavior can be difficult to track or even define in all circumstances, evidence suggests

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Table 2.1

Minimum Requirements for Ethics Compliance Programs

- **Compliance standards and procedures.** Establish standards and procedures, such as codes of ethics and identification of areas of risk, capable of reducing misconduct or criminal activities.
- **High-level personnel responsibility.** Assign high-level personnel, such as boards of directors and top executives, the overall responsibility to actively lead and oversee ethics compliance programs.
- **Due care in assignments.** Avoid delegating authority to individuals with a propensity for misconduct or illegal activities.
- **Communication of standards and procedures.** Communicate ethical requirements to high-level officials and other employees through ethics training programs or publications that explain in practical terms what is required.
- **Establishment of monitoring and auditing systems and reporting system.** Monitor and review ethical compliance systems and establish a reporting system employees can use to notify the organization of misconduct without fear of retribution.
- **Enforcement of standards through appropriate mechanisms.** Consistently enforce ethical codes, including employee discipline.
- **Appropriate responses to the offense.** Take reasonable steps to respond to the offense and to prevent and detect further violations.
- **Self-reporting.** Report misconduct to the appropriate government agency.
- **Applicable industry practice or standards.** Follow government regulations and industry standards.

Sources: "An Overview of the United States Sentencing Commission and the Federal Sentencing Guidelines," U.S. Sentencing Commission, accessed June 7, 2006, http://www.ussc.gov; "The Relationship between Law and Ethics, and the Significance of the Federal Sentencing Guidelines for Organizations," Ethics and Policy Integration Center, accessed June 7, 2006, http://www.epic-online.net; U.S. Sentencing Commission, "Sentencing Commission Toughens Requirements for Corporate Compliance and Ethics Programs," USSC news release, April 13, 2004.

that some individuals act unethically or illegally on the job. A survey of British employees found that more than a third admitted to spending up to 30 minutes a day using the Internet and the World Wide Web for personal business when they should have been working. This amount of time may not seem abusive, but it adds up to as much as two weeks a year.[7] In another poll, the main types of unethical behavior observed by employees were lying, withholding information, abusing or intimidating employees, inaccurately reporting the amount of time worked, and discrimination. Related to personal ethics in the workplace is the broader issue of being considerate to co-workers and using common office courtesy. The "Business Etiquette" feature explores these issues.

Technology seems to have expanded the range and impact of unethical behavior. For example, anyone with computer access to data has the potential to steal or manipulate the data or to shut down the system, even from a remote location. Often the people who hack into a company's computers are employees, and some observers consider employee attacks the most expensive. Such attacks often result in the theft of intellectual property, such as patented or copyrighted information.

assessment check

1. What role can an ethics compliance officer play in a firm?
2. What factors influence the ethical environment of a business?

Nearly every employee, at every level, wrestles with ethical questions at some point or another. Some rationalize questionable behavior by saying, "Everybody's

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(b)usiness (e)tiquette

Being Considerate of Co-Workers

Working brings us into close and frequent contact with others. The physical environment of many workplaces—especially those with cubicles—makes few concessions to employee privacy or desire to avoid noise and distractions. If you find yourself occupying a cubicle, here are some ways to ensure that you are as considerate of others as you would wish them to be of you.

1. Respect others' privacy. Pretend cubicles have full walls and doors; avoid glancing in when you walk by and always knock before entering. If the person you need to see is occupied, don't wait in the doorway; come back later.
2. When you are in someone else's office or cubicle, keep your eyes off the computer screen. If the other person's phone rings, excuse yourself and come back later.
3. If you want to listen to music while working and if it is permitted, wear headphones to avoid distracting others.
4. Set the volume low on your computer, and use a screen saver option without sound effects.
5. Answer your phone promptly and keep your voice down. Set the ring tone on low volume, and if you use a speakerphone, keep it on low. If you must make a personal call, remember that you can probably be heard.
6. Be aware that some people are sensitive to strong or excessive perfumes, colognes, and sprays, and apply them sparingly and before you leave home.
7. Keep personal touches to your space in line with company standards and take care not to offend or distract co-workers, clients, or other visitors with inappropriate posters, cartoons, or trinkets.
8. If an impromptu meeting or gathering begins outside someone's workspace, move to a conference room or common area such as the lunchroom to avoid disturbing others.
9. If you need to borrow something from another person's office, ask permission first, and always return or replace the item.
10. Avoid habits that distract others, such as popping gum, humming, tapping things on the desk, taking shoes off, eating food with strong odors, and leaving refuse and leftovers out.

Sources: Mary Lebeau, "The Fine Art of 'Cube-tiquette,'" JobWeb, accessed June 7, 2006, http://www.jobweb.com; Jill Bremer, "Cubicle Etiquette," Bremer Communications, accessed June 7, 2006, http://www.bremercommunications.com; "Cubicle Culture Isn't Necessarily Very Private," *(Sioux Falls, SD) Argus Leader*, accessed June 7, 2006, http://www.herald-dispatch.com.

doing it." Others act unethically because they feel pressured in their jobs or have to meet performance quotas. Yet some avoid unethical acts that don't mesh with their personal values and morals. To help you understand the differences in the ways individuals arrive at ethical choices, the next section focuses on how personal ethics and morals develop.

Development of Individual Ethics

Individuals typically develop ethical standards in the three stages shown in Figure 2.2: the preconventional, conventional, and postconventional stages. In the preconventional stage, individuals primarily consider their own needs and desires in making decisions. They obey external rules only because they are afraid of punishment or hope to receive rewards if they comply.

In the second stage, the conventional stage, individuals are aware of and act in response to their duty to others, including their obligations to their family members, coworkers, and organizations. The expectations of these groups influence how they choose between what is acceptable and unacceptable in certain situations. Self-interest, however, continues to play a role in decisions.

The postconventional stage, the final stage, represents the highest level of ethical and moral behavior. The individual is able to move beyond mere self-interest and duty and take the larger needs of society into account as well. He or she has developed personal ethical principles for determining what is right and can apply those principles in a wide variety of situations.

An individual's stage in moral and ethical development is determined by a huge number of factors. Experiences help shape responses to different situations. A person's family, educational, cultural, and religious backgrounds can also play a role, as can the environment within the firm. Individuals can also have different styles of deciding ethical dilemmas, no matter what their stage of moral development.

To help you understand and prepare for the ethical dilemmas you may confront in your career, let's take a closer look at some of the factors involved in solving ethical questions on the job.

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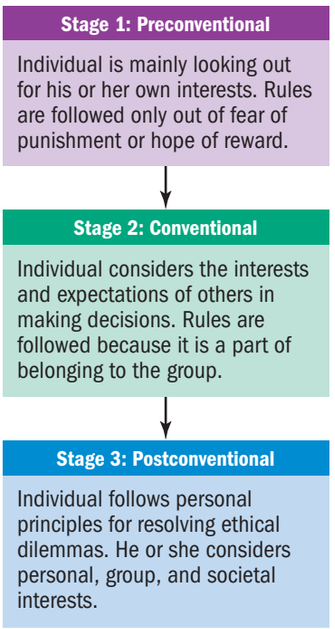
On-the-Job Ethical Dilemmas

In the fast-paced world of business, you will sometimes be called on to weigh the ethics of decisions that can affect not just your own future but possibly the futures of your fellow workers, your company, and its customers. As already noted, it's not always easy to distinguish between what is right and wrong in many business situations, especially when the needs and concerns of various parties conflict. Some CEOs recently accused of wrongdoing have claimed they did not know that crimes were being committed, but this defense has not always been effective (see the "Hit & Miss" feature).

Figure 2.2 Stages of Moral and Ethical Development



Many manufacturers that utilize factories overseas have faced criticism at home over the poor working conditions found there. Concerned that pulling their business from overseas suppliers often leaves workers in developing countries without employment, some firms have turned instead to efforts to improve working conditions abroad. Reebok International developed software to monitor working conditions at the factories that manufacture the company's brand-name shoes and clothing. Other manufacturers grew interested in the Human Rights Tracking System, which tracks such factors as wages, air quality, and building safety features. So Reebok's chief information officer and vice president of human rights programs set up a nonprofit organization to share the software with other firms, which pay only a subscription fee to help fund research and improvements to the software. The nonprofit Fair Factories Clearinghouse maintains a global database about workplace and factory conditions around the world that member companies can share.[8] And in yet another ethical corporate stand, Reebok has refused to do any business in Burma, an Asian country notorious for its government's widespread brutality and human rights abuses. The company is urging other businesses to **boycott** the country to pressure it to reform.[9]

Solving ethical dilemmas is not easy. In many cases, each possible decision can have unpleasant consequences and positive benefits that must be evaluated. The ethical issues that confront manufacturers with overseas suppliers are just one example of many different types of ethical questions encountered in the workplace. Figure 2.3 on page 39 identifies four of the most common ethical challenges that businesspeople face: conflict of interest, honesty and integrity, loyalty versus truth, and whistle-blowing.

conflict of interest situation in which an employee must make a decision about a business's welfare versus personal gain.

Conflict of Interest

A **conflict of interest** exists when a businessperson is faced with a situation in which an action benefiting one person or group has the potential to harm another. Conflicts of interest may pose ethical challenges when they involve the businessperson's own interests and those of someone to whom he or she has a duty or when they involve two parties to whom the businessperson has a duty. Lawyers, business consultants, or advertising agencies would face a conflict of interest if they represented two competing companies: a strategy that would most benefit one of the client companies might harm the other client. Similarly, a real estate agent would face an ethical conflict if he or she represented both the buyer and seller in a transaction. In general, the buyer benefits from a low price, and the seller benefits from a high price. Handling the situation responsibly would be possible, but it would also be difficult. A conflict may also exist between someone's personal interests and those of an organization or its customers. An offer of gifts or bribes for special treatment creates a situation in which the buyer, but not necessarily his or her company, may benefit personally.

assessment check

1. What is the preconventional stage in the development of ethical standards?
2. What is the difference between the conventional and the postconventional stages?

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HIT & MISS

Failure at the Top

It seemed the scandals and ethical failures would never end, as top executives faced charges ranging from fraud to conspiracy to perjury and obstruction of justice. What happened to them? Here's an update.

Bernard Ebbers, former CEO of WorldCom, was convicted of fraud and conspiracy in a huge accounting fraud at the company now called MCI. He still claims ignorance of accounting methods, but he was sentenced to 25 years in prison.

L. Dennis Kozlowski and Mark Swartz, former CEO and chief financial officer (CFO) of Tyco International, were convicted of looting more than $600 million from company coffers to pay for personal items, such as extravagant parties, a glitzy Manhattan apartment, and artwork. Both were convicted on 22 charges, including grand larceny, falsifying business records, and securities fraud. They still say they were unaware of any wrongdoing at the company.

John Rigas, founder of Adelphia Communications, was convicted of conspiracy and fraud in the theft of about $100 million from the firm. He denied wrongdoing and shifted blame to his son Timothy, former CEO, who was also convicted. Rigas was sentenced to 15 years in federal prison and his son received a 20-year sentence.

Before his death in July of 2006, Kenneth Lay, former Chairman and CEO of Enron, was convicted on six counts of fraud, insider trading, lying to investors and auditors, and inflating Enron's assets. Lay maintained that he didn't know of any misdeeds and blamed former CFO, Andrew Fastow. Due to his death preceding his sentencing, Lay's convictions will likely be overturned. However, Jeffrey Skilling, former CEO of Enron, who was also convicted on the same counts as Lay, will not be so lucky. Despite the fact that he still maintains his innocence, his convictions will stand.

Martha Stewart, CEO and founder of her namesake company, served five months in prison and five months confined to her home for conspiracy, obstruction of justice, and making false statements after selling her stock in ImClone Systems. She has returned to work at her namesake company.

Questions for Critical Thinking

1. Is it possible for top executives to be unaware of ongoing fraud and other crime in their firms if they are not experts in accounting, taxation, or law?
2. How can CEOs of large companies ensure that everyone in the organization is consistently behaving in an ethical manner?

Sources: Erin McClam, "WorldCom's Ebbers Weeps at 25-Year Sentence," *Yahoo! News*, accessed June 7, 2006, http://news.yahoo.com; Associated Press, "Ex-Tyco CEO Dennis Kozlowski Found Guilty," MSNBC, accessed June 7, 2006, http://msnbc.msn.com; Mary Flood and Purva Patel, "WorldCom Case May Be Omen for Lay," *Houston Chronicle*, accessed June 7, 2006, http://www.chron.com; "Status of High-Profile Corporate Scandals," *USA Today*, accessed June 7, 2006, http://www.usatoday.com; Daren Fonda, "After Bernie, Who's Next?" *Time*, March 28, 2005, pp. 44–46.

"They Said It"

"It's easy to have principles when you're rich. The important thing is to have principles when you're poor."
—Ray A. Kroc (1902–1984) founder, McDonald's Corporation

A former U.S. Air Force acquisition executive, Darleen Druyun, was sentenced to nine months in prison, fined $5,000, and ordered to perform 150 hours of community service after her conviction in a conflict-of-interest case. Druyun was negotiating a new job with aerospace firm Boeing while she was also negotiating contracts with the company for the Air Force. Her son-in-law also worked for Boeing. She admitted that she did favor Boeing in some of her contract negotiations by increasing the dollar amounts of some contracts, which cost her employer, the Defense Department.[10]

Ethical ways to handle conflicts of interest include (1) avoiding them and (2) disclosing them. Some companies have policies against taking on clients who are competitors of existing clients. Most businesses and government agencies have written policies prohibiting employees from accepting gifts or specifying a maximum gift value of, say, $25 or so. Or a member of a board of directors or committee might abstain from voting on a decision in which he or she has a personal interest. In other situations, people state their potential conflict of interest so that the people affected can decide whether to get information or help they need from another source instead.

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Figure 2.3 Common Business Ethical Challenges

Honesty and Integrity Employers highly value honesty and integrity. An employee who is honest can be counted on to tell the truth. An employee with **integrity** goes beyond truthfulness. Having integrity means adhering to deeply felt ethical principles in business situations. It includes doing what you say you will do and accepting responsibility for mistakes. Behaving with honesty and integrity inspires trust, and as a result, it can help build long-term relationships with customers, employers, suppliers, and the public. Employees, in turn, want their managers and the company as a whole to treat them honestly and with integrity.

Unfortunately, violations of honesty and integrity are all too common. Some people misrepresent their academic credentials and previous work experience on their résumés or job applications. Others steal from their employers by taking home supplies or products without permission or by carrying out personal business during the time they are being paid to work.

The Employment Law Alliance recently asked nearly 800 workers about their Internet use at work. Nearly a quarter said they or a co-worker had used their employer's computer for "romance/sexual purposes," which for about 6 percent included engaging in "sexually explicit chatting/instant messaging." Surprisingly, more than half the respondents said such computer use "is not having a negative impact on productivity."[11] Despite this view, most employers find such misuse of company equipment and other offenses, such as the use of e-mail for downloading pirated software at work, serious enough to make electronic monitoring and surveillance increasingly widespread in the workplace. Compliance with laws regarding the privacy and security of client information is another major reasons given for the continuing increase in such monitoring.[12]

Loyalty versus Truth Businesspeople expect their employees to be loyal and to act in the best interests of the company. But when the truth about a company is not favorable, an ethical conflict can arise. Individuals may have to decide between loyalty to the company and truthfulness in business relationships. People resolve such dilemmas in various ways. Some place the highest value on loyalty, even at the expense of truth. Others avoid volunteering negative information but answer truthfully if someone asks them a specific question. People may emphasize truthfulness and actively disclose negative information, especially if the cost of silence is high, as in the case of operating a malfunctioning aircraft or selling tainted medicine.

Whistle-Blowing When an individual encounters unethical or illegal actions at work, the person must decide what action to take. Sometimes it is possible to resolve the problem by working through channels within the organization. If that fails, the person should weigh the potential damages to the greater public good. If the damage is significant, a person may conclude that the only solution is to blow the whistle. **Whistle-blowing** is an employee's disclosure to company officials, government authorities, or the media of illegal, immoral, or unethical practices.

whistle-blowing employee's disclosure to company officials, government authorities, or the media of illegal, immoral, or unethical practices committed by an organization.

A whistle-blower must weigh a number of issues in deciding whether to come forward. Resolving an ethical problem within the organization can be more effective, assuming higher-level managers cooperate. A company that values ethics will try to correct a problem, and staying at a company that does not value ethics may not be worthwhile. In some cases, however, people resort to whistle-blowing because they believe the unethical behavior is causing significant damage that outweighs the risk that the company will retaliate against the whistle-blower. Those risks have been real in the past. State and federal laws protect whistle-blowers

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in certain situations, such as reports of discrimination, and the Sarbanes-Oxley Act of 2002 now requires that firms in the private sector provide procedures for anonymous reporting of accusations of fraud. Under the act, anyone who retaliates against an employee for taking concerns of unlawful conduct to a public official can be prosecuted. Whistle-blowers who still experience retribution for their actions have recourse thanks to the act—those who have been fired, demoted, threatened, or harassed have 90 days to file a complaint with the U.S. Department of Labor.

Not all whistle-blowing cases are straightforward. Douglas Durand cooperated with the government to build a fraud case against TAP Pharmaceutical Products for several years after he left his job there as vice president of sales. Durand charged that TAP conspired with doctors to overcharge Medicare tens of millions of dollars. TAP eventually paid the government a fine of $885 million, several times the amount it was accused of making through fraudulent claims. Under a 1986 law that awards whistle-blowers up to 30 percent of any amount the government recovers in their case, Durand was awarded $126 million, but all the defendants in the TAP case were recently exonerated. Supporters of the law that rewards whistle-blowers say it is the only way to combat fraud in government contracts. "Financial incentives are what bring people forward," admits the director of the Justice Department's civil fraud department. But, he concludes, the facts of the case are then brought to light in the investigation that follows.[13]

Obviously, whistle-blowing and other ethical issues arise relatively infrequently in firms with strong organizational climates of ethical behavior. The next section examines how a business can develop an environment that discourages unethical behavior among individuals.

"They Said It"

"If it ever came to a choice between compromising my moral principles and the performance of my duties, I know I'd go with my moral principles."
—Norman Schwarzkopf (b. 1934)
Retired general, U.S. Army

assessment check

1. What are honesty and integrity and how do they differ?
2. How can loyalty and truth come into conflict for an employee?

HOW ORGANIZATIONS SHAPE ETHICAL CONDUCT

code of conduct formal statement that defines how the organization expects employees to resolve ethical issues.

No individual makes decisions in a vacuum. Choices are strongly influenced by the standards of conduct established within the organizations where people work. Most ethical lapses in business reflect the values of the firms' corporate cultures.

As shown in Figure 2.4, development of a corporate culture to support business ethics happens on four levels: ethical awareness, ethical reasoning, ethical action, and ethical leadership. If any of these four factors is missing, the ethical climate in an organization will weaken.

Figure 2.4 Structure of an Ethical Environment

Ethical Awareness

The foundation of an ethical climate is ethical awareness. As we have already seen, ethical dilemmas occur frequently in the workplace. So employees need help in identifying ethical problems when they occur. Workers also need guidance about how the firm expects them to respond.

One way for a firm to provide this support is to develop a **code of conduct,** a formal statement that defines how the organization expects employees to resolve ethical questions. Johnson & Johnson's Credo, presented earlier, is such a code. At the most basic level, a code of conduct may simply specify ground rules for acceptable behavior, such as identifying the laws and regulations that employees must obey. Other companies use their

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codes of conduct to identify key corporate values and provide frameworks that guide employees as they resolve moral and ethical dilemmas.

Canada-based Nortel Networks, an international telecommunications giant with customers in 150 countries, uses a code of conduct to define its values and help employees put them into practice. The code of conduct defines seven core values that Nortel requires as it strives to become known as a company of integrity. The code also defines standards for conduct among employees and between employees and the company's shareholders, customers, suppliers, and communities. Employees are expected to treat one another with respect, including respect for individual and cultural differences; protect the company's assets; and fulfill whatever commitments they make. The code of conduct also states that each employee is responsible for behaving consistently with its standards and for reporting possible violations of the code. Nortel provides each employee with a copy of this code of conduct and also posts it on its Web site.[14]

Other firms incorporate similar codes in their policy manuals or mission statements; some issue a code of conduct or statement of values in the form of a small card that employees and managers can carry with them. Harley-Davidson has developed a brief code of ethics that employees can apply both at work and in their personal lives. It reads: "Tell the truth, keep your promises, be fair, respect the individual and encourage intellectual curiosity."

Ethical Reasoning

Although a code of conduct can provide an overall framework, it cannot detail a solution for every ethical situation. Some ethical questions have black-and-white answers, but others do not. Businesses must provide the tools employees need to evaluate the options and arrive at suitable decisions.

Many firms have instituted ethics training programs. Lockheed Martin has developed a training program in the form of interactive lessons that employees can access online. The sessions include cases performed by actors, plus tests in the form of multiple-choice questions. They cover a variety of business-related topics, from security to sexual harassment. The company also tracks which employees have completed which training sessions. In addition, Lockheed Martin uses a game called the Ethics Challenge, in which the players use cards and tokens to read about and resolve ethical quandaries based on real-life situations. Everyone in the company, from hourly workers to the chairman, is required to play the Ethics Challenge once per year.

Many authorities debate whether ethics can actually be taught, but training can give employees an opportunity to practice applying ethical values to hypothetical situations as a prelude to applying the same standards to real-world situations. Similar strategies are being used in many business school ethics programs, where case studies and practical scenarios work best.[15]

Ethical Action

Codes of conduct and ethics training help employees recognize and reason through ethical problems. In addition, firms must also provide structures and approaches that allow decisions to be turned into ethical actions. Texas Instruments gives its employees a reference card to help them make ethical decisions on the job. The size of a standard business card, it lists the following guidelines:

- Does it comply with our values?
- If you do it, will you feel bad?
- How will it look in the newspaper?
- If you know it's wrong, don't do it!
- If you're not sure, ask.
- Keep asking until you get an answer.

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Goals set for the business as a whole and for individual departments and employees can affect ethical behavior. A firm whose managers set unrealistic goals for employee performance may find an increase in cheating, lying, and other misdeeds, as employees attempt to protect themselves. In today's Internet economy, the high value placed on speed can create a climate in which ethical behavior is sometimes challenged. Ethical decisions often require careful and quiet thought, a challenging task in a business moving at warp speed.

Some companies encourage ethical action by providing support for employees faced with dilemmas. One common tool is an employee hotline, a telephone number that employees can call, often anonymously, for advice or to report unethical behavior they have witnessed. Nortel Networks, for example, operates a Business Ethics Advice Line. Employees from around the world can contact the advice line via phone or e-mail to ask for advice in applying the code of conduct in specific situations. Ethics compliance officers at some firms, as mentioned previously, guide employees through ethical minefields.

Ethical Leadership

Executives must not only talk about ethical behavior but also demonstrate it in their actions. This principle requires employees to be personally committed to the company's core values and be willing to base their actions on them. One important way for business leaders to model ethical behavior is to admit when they are wrong and correct their organization's mistakes and problems. Citigroup, the world's largest financial services group, provides banking, investment banking, insurance, and other financial services in more than 100 countries. But its recent impressive growth has been tainted by financial scandals in Germany, the United Kingdom, and Japan, among other countries. CEO Charles Prince denounced the wrongdoing by its London bond-trading desk as "completely knuckleheaded." He not only apologized for failing to prevent wrongdoing by clients in Japan but also fired the top executives who were involved. Despite ongoing legal and regulatory problems for Citigroup around the world, Prince continues to weed out errant managers and calls it a "key priority for this management team to take these open issues off the table." A recent annual report promises that the financial giant will develop "best practice" standards: "We need to be clear about this subject; because of our size and scope, because of our position of business leadership, we are held to a higher standard. We accept this responsibility."[16]

"They Said It"

"It's up to us to use our platforms to be a good citizen . . . it's a business imperative."
—Jeff Immelt (b. 1956)
CEO, General Electric

However, ethical leadership should also go one step further and charge each employee at every level with the responsibility to be an ethical leader. Everyone should be aware of problems and be willing to defend the organization's standards. The Nortel Networks guidelines specifically communicate these responsibilities. The company tells employees they are expected to "ask questions when we're unsure of the appropriate course of action in any situation" and "report violations or concerns to . . . someone who has no connection to the activity in question and who can make an objective evaluation."[17]

assessment check

1. What is a code of conduct?
2. How does ethical leadership contribute to ethical standards throughout a company?

Unfortunately, not all organizations are able to build a solid framework of business ethics. Because the damage from ethical misconduct can powerfully affect a firm's stakeholders—customers, investors, employees, and the public—pressure is exerted on businesses to act in acceptable ways. But when businesses fail, the law must step in to enforce good business practices. Many of the laws that affect specific industries or individuals are described in other chapters in this book. For example, legislation affecting international business operations is discussed in Chapter 4. Laws designed to assist small businesses are examined in Chapter 5. Laws related to labor unions are described in Chapter 9. Legislation related to banking and the securities markets is discussed in Chapters 17 and 18. Finally, for an examination of the legal and governmental forces designed to safeguard society's interests when businesses fail at self-regulation, see the Part 1 Appendix, "The Legal Framework for Business."

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ACTING RESPONSIBLY TO SATISFY SOCIETY

A second major issue affecting business is the question of social responsibility. In a general sense, **social responsibility** is management's acceptance of the obligation to consider profit, consumer satisfaction, and societal well-being of equal value in evaluating the firm's performance. It is the recognition that business must be concerned with the qualitative dimensions of consumer, employee, and societal benefits, as well as the quantitative measures of sales and profits, by which business performance is traditionally measured. Businesses may exercise social responsibility because such behavior is required by law, because it enhances the company's image, or because management believes it is the ethical course of action.

social responsibility business's consideration of society's well-being and consumer satisfaction, in addition to profits.

Historically, a company's social performance has been measured by its contribution to the overall economy and the employment opportunities it provides. Variables such as total wages paid often indicate social performance. Although profits and employment remain important, today many factors contribute to an assessment of a firm's social performance, including providing equal employment opportunities; respecting the cultural diversity of employees; responding to environmental concerns; providing a safe, healthy workplace; and producing high-quality products that are safe to use.

A business is also judged by its interactions with the community. To demonstrate their social responsibility, many corporations highlight charitable contributions and community service in their annual reports and on their Web site. Deere & Company of Illinois, for example, sells agricultural, construction, and lawn care equipment all over the world, but it also recently donated $1.5 million in land and facilities to its neighbor, Western Illinois University. The firm is also working with local community colleges to recruit hundreds of new employees over the next few years.[18]

assessment check

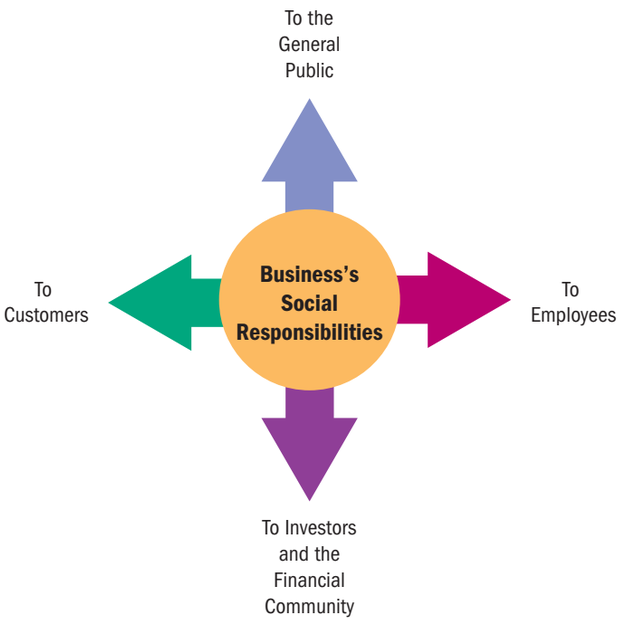
1. What is meant by social responsibility and why do firms exercise it?
2. What is a social audit?

Some firms measure social performance by conducting **social audits**, formal procedures that identify and evaluate all company activities that relate to social issues such as conservation, employment practices, environmental protection, and philanthropy. The social audit informs management about how well the company is performing in these areas. Based on this information, management may revise current programs or develop new ones.

Outside groups may conduct their own evaluations of businesses. Various environmental, religious, and public-interest groups have created standards of corporate performance. Reports on many of these evaluations are available to the general public. The New York–based Council on Economic Priorities is "committed to making available to the public information about corporate social responsibility in areas such as the environment, community outreach, advancement of women and minorities, charitable giving, family benefits, and animal testing."[19] Other groups publicize their evaluations and include critiques of the social responsibility performance of firms. The Center for Science in the Public Interest evaluates the healthfulness of the foods marketed to consumers.[20]

As Figure 2.5 shows, the social responsibilities of business can be classified according to its relationships to the general public, customers, employees, and investors and other members of the financial community. Many of these relationships extend beyond national borders.

Figure 2.5 Responsibilities of Business



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AP PHOTO/LOS ANGELES COUNTY DEPARTMENT OF PUBLIC HEALTH, RENE MACURA

Under the settlement that the U.S. government made with tobacco companies, the industry must work to avoid targeting young people. Part of that effort also involves smoking prevention programs. This photo of a Los Angeles county youth advocate was taken just prior to a youth rally held in Los Angeles.

Responsibilities to the General Public

The responsibilities of business to the general public include dealing with public health issues, protecting the environment, and developing the quality of the workforce. Many would argue that businesses also have responsibilities to support charitable and social causes and organizations that work toward the greater public good. In other words, they should give back to the communities in which they earn profits. Such efforts are called *corporate philanthropy.*

Public-Health Issues

One of the most complex issues facing business as it addresses its ethical and social responsibilities to the general public is public health. Central to the public-health debate is the question of what businesses should do about dangerous products such as tobacco and alcohol. Tobacco products represent a major health risk, contributing to heart disease, stroke, and cancer among smokers. Families and co-workers of smokers share this danger as well, as their exposure to secondhand smoke increases their risks for cancer, asthma, and respiratory infections.

Exposure to viruses is harder to control, although vaccines exist for many diseases. Complications from the flu cause up to 36,000 U.S. deaths each year. However, shortages of flu vaccines can cause unexpected havoc, as happened recently when the U.S. supply fell short of the amounts needed at the height of the flu season. Contamination during vaccine production halted shipment of the supply expected from England and forced the government to appeal to the public to save the remaining vaccine for those most at risk. The vaccine takes months to prepare, so additional quantities could not be manufactured in time. In the wake of the shortage, the three vaccine manufacturers issued production estimates for the following season; the company whose products had been contaminated then lowered its estimates by several million doses due to a lag in increasing its capacity.[21]

Substance abuse is another serious public health problem worldwide. The recent revelations of the use of illegal steroids by many athletes, particularly in professional baseball, highlights the difficulty of devising accurate tests for performance-enhancing and muscle-building drugs and fairly evaluating the results. Many of the drugs in question are so similar to compounds naturally present in the body that identification is extremely difficult. With regard to drug testing, athletes' individual rights to privacy have been questioned, particularly due to their widespread influence on youthful fans. Steroid use is on the rise among high school athletes, despite the wide publicity about the dangers of such drugs. Tougher penalties for professional players who fail drug tests are being formulated but are sure to be controversial for the beleaguered sports industry.[22]

Protecting the Environment

Businesses consume huge amounts of energy, which increases the use of fossil fuels such as coal and oil for energy production. This activity introduces carbon dioxide and sulfur into the earth's atmosphere, substances that many scientists believe will result in dramatic climate changes during the 21st century. Meanwhile, the sulfur from fossil fuels combines with water vapor in the air to form sulfuric acid. The acid rain that results can kill fish and trees and pollute groundwater. Wind can carry the sulfur around the entire globe. Sulfur from U.S. factories is damaging Canadian forests, and pollution from London smokestacks has been found in the forests and lakes of Scandinavia. Other production

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and manufacturing methods leave behind large quantities of waste materials that can further pollute the environment and fill already bulging landfills. Some products themselves, particularly electronics that contain toxins such as lead and mercury, are difficult to reuse or recycle. Few manufacturers are really equipped to deal with recycled materials; some refurbish junked products and sell them abroad—where later recycling is even less likely. Hewlett-Packard, however, is making its scanners with a combination of new and recycled plastics, and lead, mercury, and cadmium will soon be banned from new equipment manufactured in Europe.[23]

For many managers, finding ways to minimize **pollution** and other environmental damage caused by their products or operating processes has become an important economic, legal, and social issue. The solutions can be difficult—and expensive. It costs computer makers up to $20 to recycle each old computer, for instance.[24] Drivers may face high costs, too. Hybrid cars use a combination of gas and electricity to power their engines and promise much better fuel efficiency than conventional autos. As gasoline prices soared, sales of U.S. hybrids reached nearly 7,000 a month. Most of the purchasers chose the Toyota Prius hybrid, followed by the Honda Civic. Hybrid pickups and SUVs are on the market, and many more models are on the way. The fuel saving enjoyed by hybrid owners isn't cheap; experts figure that adding the electric system to the car also adds about $3,000 to $4,000 to the vehicle sticker price.[25]

Despite the difficulty, however, companies such as Green Mountain Coffee Roasters, profiled at the beginning of the chapter, are finding that they can be environmentally friendly and profitable, too. A "totally biodegradable and nontoxic plastic" has been developed for Motorola by a Dutch lab, Pvaxx Research and Development. Although the polymer has many possible uses, Motorola is considering using it first in snap-on cell phone covers. Researchers in Britain have also come up with an unusual method of recycling plastic. They have devised a way to embed a sunflower seed in a phone cover, which would use the polymer's waste products as nutrients to grow after the phone is discarded.[26]

Another solution to the problems of pollutants is **recycling**—reprocessing used materials for reuse. Recycling can sometimes provide much of the raw material that manufacturers need, thereby conserving the world's natural resources and reducing the need for landfills. Several industries are developing ways to use recycled materials, although in many cases getting the public to bring used products in is the first hurdle. A recent drive to collect old cell phones in Westchester County, New York, home to about 900,000 people, yielded only 32 units. And according to the Silicon Valley Toxics Coalition, as much as 60 to 80 percent of material intended for recycling "is being dumped in containers and sent to China." But companies such as Collective Good and ReCellular are taking in tens of thousands of cell phones a day and recycling and refurbishing them. TechCycle, in Colorado, recycles all kinds of used equipment and parts, even shipping old computer monitors to China to be made into televisions.[27]

According to the Environmental Protection Agency, discarded electronic units now make up as much as 40 percent of the lead in landfills in the United States, and the International Association of Electronics Recyclers estimates that consumers and businesses will be disposing of 400 million such units by 2010. Manufacturers and federal agencies are struggling to come up with a way to pay for a voluntary system for managing the problem; one possibility is a surcharge consumers would pay on each electronics purchase. In

"They Said It"

"The nation behaves well if it treats the natural resources as assets which it must turn over to the next generation increased, and not impaired, in value."

—Theodore Roosevelt (1858–1919)
26th president of the United States

recycling reprocessing of used materials for reuse.

USED WITH PERMISSION. GENERAL MOTORS CORPORATION.

As part of a research effort to reduce the pollution caused by traditional gasoline vehicles, General Motors is testing hydrogen-powered engines. If you are in Washington, D.C., you may see one of these test cars in downtown traffic. GM has more than 500 engineers on three continents working to make hydrogen power a reality.

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COURTESY OF TOYOTA MOTOR NORTH AMERICA, INC.

Recycling helps reduce garbage, which makes for a cleaner environment. Toyota's U.S. sales and financial headquarters in Southern California was built from scrapped cars, with more than 90 percent of the content coming from recycled materials. The building also uses solar power for much of its energy needs.

the meantime, Staples accepts all gadgets for recycling no matter where they were purchased, and Hewlett-Packard and Dell have agreed not to send waste materials overseas. Opportunities are opening up for firms such as RetroBox of Columbus, Ohio, which recycles used electronic products and shares the profits with the customers who bring them in.[28]

Many consumers have favorable impressions of environmentally conscious businesses. To target these customers, companies often use **green marketing,** a marketing strategy that promotes environmentally safe products and production methods. A business cannot simply claim that its goods or services are environmentally friendly, however. The Federal Trade Commission (FTC) has issued guidelines for businesses to follow in making environmental claims. A firm must be able to prove that any environmental claim made about a product has been substantiated with reliable scientific evidence. In addition, as shown in Figure 2.6, the FTC has given specific directions about how various environmental terms may be used in advertising and marketing.

Other environmental issues—such as finding renewable sources of clean energy—are the focus of many firms' efforts. Ocean Power Delivery has harnessed the power of ocean waves to supply energy to 500 Scottish homes, and Verdant Power hopes to supply power to a market on New York City's Roosevelt Island through the use of experimental turbines placed under the East River. Similar projects are under consideration by the Environmental Department of San Francisco, which is surrounded by water on three sides.[29]

Developing the Quality of the Workforce

In the past, a nation's wealth has often been based on its money, production equipment, and natural resources. A country's true wealth, however, lies in its people. An educated, skilled workforce provides the intellectual know-how required to develop new technology, improve productivity, and compete in the global marketplace. It is becoming increasingly clear that to remain competitive, U.S. business must assume more responsibility for enhancing the quality of its workforce, including encouraging diversity of all kinds.

In developed economies like that of the United States, most new jobs require college-educated workers. With demand greatest for workers with advanced skills, the difference between the highest-paid and lowest-paid workers has been increasing. Among full-time workers in the United States, the top 10 percent earn an average of $1,200 per week, compared with just $275 for the average worker in the bottom 10 percent. Twenty years ago, a college graduate on average earned 38 percent more than someone with only a high school diploma, but today the typical college graduate earns 71 percent more.

Figure 2.6 FTC Guidelines for Environmental Claims in Green Marketing

If a business says a product is...	The product or package must . . .
Biodegradable	break down and return to nature in a reasonably short period of time.
Recyclable	be entirely reusable as new materials in the manufacture or assembly of a new product or package.
Refillable	be included in a system for the collection and return of the package for refill. If consumers have to find a way to refill it themselves, it is not **refillable**.
Ozone Safe/Ozone Friendly	must not contain any ozone-depleting ingredient.

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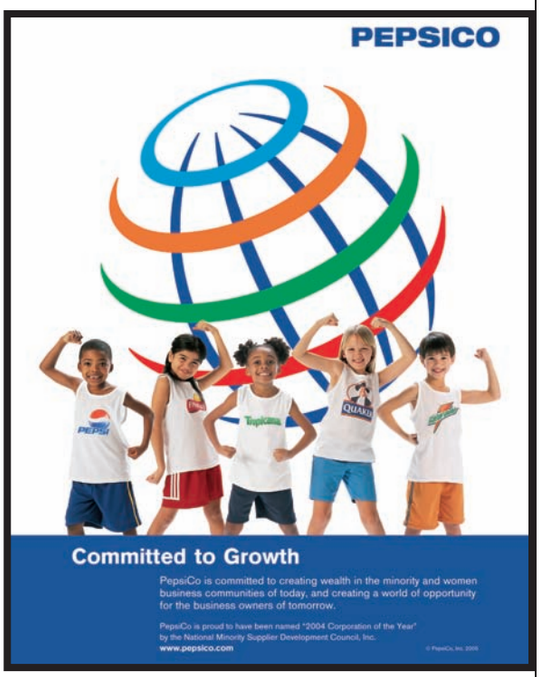
In fact, over a span of 40 years, a person with a college degree can earn more than $2.1 million.[30] Clearly, education is essential to the well-being of the workforce. Businesses must encourage students to stay in school, continue their education, and sharpen their skills. Target contributes funds to hundreds of students each year through partnerships with the Hispanic Scholarship Fund and the United Negro College Fund and also supports Reach Out and Read, a national program designed to encourage young children to read by distributing books through local children's health clinics.[31] Companies must also encourage employees to learn new skills and remain competitive.

Organizations also face enormous responsibilities for helping women, members of various cultural groups, and those who are physically challenged to contribute fully to the economy. Failure to do so is not only a waste of more than half the nation's workforce but also devastating to a firm's public image. Some socially responsible firms also encourage diversity in their business suppliers. Retail giant JCPenney's Partnership Program is designed to foster relationships with minority- and women-owned businesses—an effort the company has worked at for more than 30 years.

Through a commitment to developing employee diversity, ChevronTexaco has rebounded from a racial discrimination lawsuit. When information that the company's top managers had engaged in racist behavior became public, the company (then known simply as Texaco) was embarrassed, and its stock price tumbled. It quickly agreed to settle the lawsuit and crafted a plan to place more value on diversity among employees. Recruiting methods were revised to reach a more diverse pool of applicants, and scholarship programs were launched to develop talented minorities interested in key careers such as the physical sciences and international business. The company set specific goals for hiring and promoting qualified minority employees, and to achieve those goals, it included women and minorities on human resources committees and established mentoring programs. Within three years, the company had increased its recruiting of minorities to more than four of every ten new hires, and minorities accounted for one of every five promotions.



COURTESY OF PEPSICO, INC. © 2005

Diversity is an important way for businesses to find and employ the best workers possible. PepsiCo's forward-looking practices of using minority- and women-owned businesses as its suppliers helps create wealth in their communities—and benefits future workers as well. PepsiCo has received many awards for its diversity efforts over the years.

Corporate Philanthropy As Chapter 1 pointed out, not-for-profit organizations play an important role in society by serving the public good. They provide the human resources that enhance the quality of life in communities around the world. To fulfill this mission, many not-for-profit organizations rely on financial contributions from the business community. Firms respond by donating billions of dollars each year to not-for-profit organizations. This **corporate philanthropy** includes cash contributions, donations of equipment and products, and supporting the volunteer efforts of company employees. Recipients include cultural organizations, adopt-a-school programs, community development agencies, and housing and job training programs.

corporate philanthropy act of an organization giving something back to the communities in which it earns profits.

Corporate philanthropy can have many positive benefits beyond the purely "feel-good" rewards of giving, such as higher employee morale, enhanced company image, and improved customer relationships. General Mills, for instance, is a major contributor to the Susan G. Komen Breast Cancer Foundation, through its line of yogurt products marketed under the Yoplait brand name. Yoplait's target market is health-conscious women, the same group most likely to know of or become involved with the Komen Foundation's fund-raising efforts.[32]

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KEVIN DIETSCH/UPI/LANDOV

Habitat for Humanity is one of many organizations that benefit from corporate philanthropy and partnerships. Organizations like this benefit through a corporation's ability to raise public awareness, volunteer manpower, product donations, and financial support.

Companies often seek to align their marketing efforts with their charitable giving. Many contribute to the Olympics and create advertising that features the company's sponsorship. This is known as *cause-related marketing*. In a recent survey nearly nine out of ten young people said they believed companies had a duty to support social causes, and nearly seven in eight said they would switch brands in order to reward a company that did so. "Writing checks is not enough," says the director for research and policy development at Boston College's Center for Corporate Citizenship.[33]

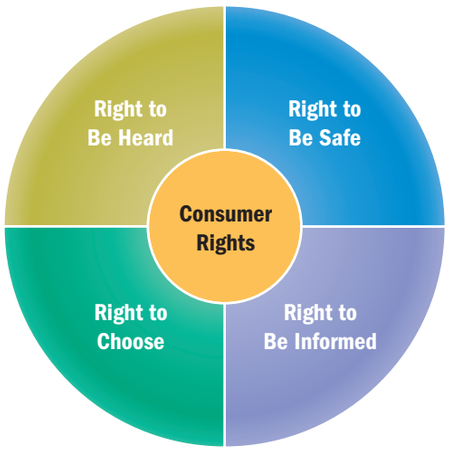
Another form of corporate philanthropy is volunteerism. In their roles as corporate citizens, thousands of businesses encourage their employees to contribute their efforts to projects as diverse as Habitat for Humanity, the United Way, and Red Cross blood drives. In addition to making tangible contributions to the well-being of fellow citizens, such programs generate considerable public support and goodwill for the companies and their employees. In some cases, the volunteer efforts occur mostly during off-hours for employees. In other instances, the firm permits its workforce to volunteer during regular working hours. Sometimes companies help by contributing resources to promote worthy causes, such as Concern Worldwide's mission to help poverty-stricken people around the world.

Responsibilities to Customers

consumerism public demand that a business consider the wants and needs of its customers in making decisions.

Businesspeople share a social and ethical responsibility to treat their customers fairly and act in a manner that is not harmful to them. They can even encourage harried customers to slow down for a rejuvenating ritual such as a cup of tea, as the "Hit & Miss" feature explains. **Consumerism**—the public demand that a business consider the wants and needs of its customers in making decisions—has gained widespread acceptance. Consumerism is based on the belief that consumers have certain rights. The most frequently quoted statement of consumer rights was made by President John F. Kennedy in 1962. Figure 2.7 summarizes these consumer rights. Numerous state and federal laws have been implemented since then to protect these rights.

Figure 2.7 Consumer Rights as Proposed by President Kennedy



The Right to Be Safe

Contemporary businesspeople must recognize obligations, both moral and legal, to ensure the safe operation of their products. Consumers should feel assured that the products they purchase will not cause injuries in normal use. **Product liability** refers to the responsibility of manufacturers for injuries and damages caused by their products. Items that lead to injuries, either directly or indirectly, can have disastrous consequences for their makers.

Many companies put their products through rigorous testing to avoid safety problems. Still, testing alone cannot foresee every eventuality. Companies must try to consider all possibilities and provide adequate warning of potential dangers. When a product does pose a threat to customer safety, a responsible manufacturer responds quickly to either correct the problem or recall the dangerous product. For example, General Motors recently recalled more than 300,000 SUVs and trucks to correct problems with a turn signal even though no injuries or damage had been reported.[34]

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HIT & MISS

No Passport Needed to Visit the Republic of Tea

Would you like to visit the Republic of Tea and join those who are learning the "Sip-by-Sip life," one of health, balance, and well-being? All you need do is visit one of the 20,000 specialty stores and upscale restaurants that offer the company's certified organic full-leaf teas or place a mail or Internet order and enjoy their exotic blends at home.

Based in California, the quirky private firm offers only full-leaf tea, made from "simple, natural . . . hand-picked young shoots" to retain the essential oils that make each flavor unique and aromatic. The Republic has grown rapidly in the last ten years and now ships hundreds of orders a day from its more than 170 different product lines, which include not only teas such as Silver Rain, Dragon Well, and Moroccan Mint and caffeine-free herbal teas but also the occasional CD of soothing music to sip by. At prices of $10 or more for 50 bags, Republic of Tea blends are unlikely to show up in your local supermarket anytime soon. But sales of specialty teas have been rising to a record 20 percent of total tea sales, and Republic's managers have seen their business quadruple to more than $10 million a year.

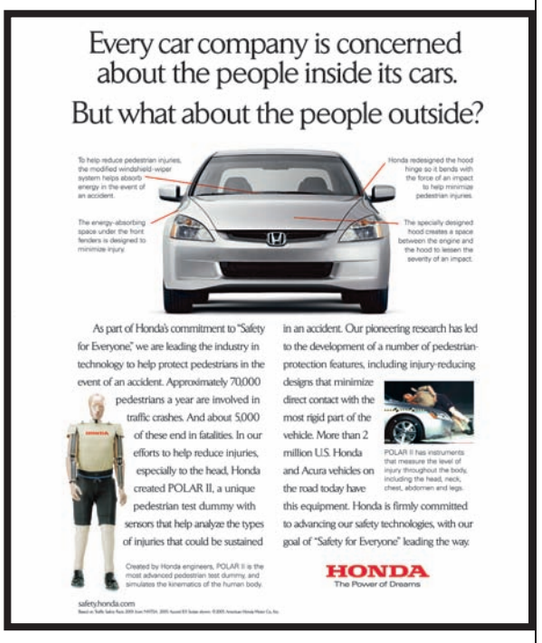
The company is thriving by offering high-quality products, marketing them in the same way producers of fine wine do, and creating an unusual working atmosphere. Its human resource policies are attuned to its philosophy of promoting a balanced lifestyle that honors the sharing of tea as a ritual of "hospitality and nourishment for both body and soul." Every year several of its salespeople and managers travel to India, China, or South Africa to see the tea being made and to pick it themselves. "It's so motivating," said one employee of his trip to China. "It's the trip of a lifetime."

Questions for Critical Thinking

1. In what way is Republic of Tea's focus on lifestyle an ethical choice the company has made? What values does this choice suggest?
2. Does the Republic of Tea demonstrate any ethical responsibilities to its employees? How? How might that contribute to the company's success?

Sources: "High Time for Tea in America," *BusinessWeek* Online, accessed June 14, 2006, http://www.businessweek.com; Republic of Tea Web site, accessed June 7, 2006, http://www.republicoftea.com; "What Motivates Me," *Sales & Marketing Management*, September 2004, p. 20.

The Right to Be Informed Consumers should have access to enough education and product information to make responsible buying decisions. In their efforts to promote and sell their goods and services, companies can easily neglect consumers' right to be fully informed. False or misleading advertising is a violation of the Wheeler-Lea Act, a federal law enacted in 1938. The FTC and other federal and state agencies have established rules and regulations that govern advertising truthfulness. These rules prohibit businesses from making unsubstantiated claims about the performance or superiority of their goods or services. They also require businesses to avoid misleading consumers. Businesses that fail to comply face scrutiny from the FTC and consumer protection organizations. In one case, the FTC responded to complaints by filing charges against Star Publishing Group, which under the name National Consumer Services placed want ads promising as much



COURTESY OF AMERICAN HONDA MOTOR CO. INC.

Honda goes beyond product testing to help prevent and reduce injuries related to accidents—not only for passengers but also for pedestrians. The company created a test dummy called POLAR II to analyze the force and types of impacts in car-person accidents. As a result, Honda developed energy-absorbing bumpers and hoods and modified its windshield wiper design to reduce the injuries from impact.

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as $800 per week for starting a home-based business. Consumers who called the toll-free number in the ad reached a recording selling a guide to start a business that the recording falsely implied would involve government work.

The Food and Drug Administration (FDA), which sets standards for advertising conducted by drug manufacturers, eased restrictions for prescription drug advertising on television. In print ads, drug makers are required to spell out potential side effects and the proper uses of prescription drugs. Because of the requirement to disclose this information, prescription drug television advertising was limited. Now, however, the FDA says drug ads on radio and television can directly promote a prescription drug's benefits if they provide a quick way for consumers to learn about side effects, such as displaying a toll-free number or Internet address. The FDA also monitors "dietary supplements," including vitamins and herbs. These products may make claims about their general effect on health but may not claim to cure a disease, unless the company has presented the FDA with research and received the agency's approval. For instance, a product may say it helps the body maintain a healthy immune system but not that it fights colds.

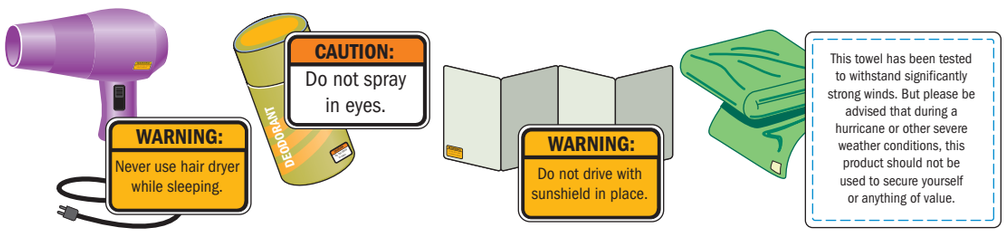
The responsibility of business to preserve consumers' right to be informed extends beyond avoiding misleading advertising. All communications with customers—from salespeople's comments to warranties and invoices—must be controlled to clearly and accurately inform customers. Most packaged-goods firms, personal-computer makers, and other makers of products bought for personal use by consumers include toll-free customer service numbers on their product labels so that consumers can get answers when they have questions about a product.

To protect their customers and avoid claims of insufficient disclosure, businesses often include warnings on products. As Figure 2.8 shows, sometimes these warnings go far beyond what a reasonable consumer would expect.

The Right to Choose Consumers should have the right to choose which goods and services they need and want to purchase. Socially responsible firms attempt to preserve this right, even if they reduce their own sales and profits in the process. Brand-name drug makers have recently gone on the defensive in a battle being waged by state governments, insurance companies, consumer groups, unions, and major employers such as General Motors and Verizon. These groups want to force down the rising price of prescription drugs by ensuring that consumers have the right and the opportunity to select cheaper generic brands.

The Right to Be Heard Consumers should be able to express legitimate complaints to appropriate parties. Many companies expend considerable effort to ensure full hearings for consumer complaints. The eBay auction Web site assists buyers and sellers who believe they

Figure 2.8 Wacky Warning Labels



To protect themselves from product liability lawsuits, businesses have become more careful about including warnings on products. However, some companies may go overboard, as demonstrated by these actual product warning labels.

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were victimized in transactions conducted through the site. It deploys a 200-employee team to work with users and law enforcement agencies to combat fraud. The company provides all users with insurance coverage of up to $200 per transaction, with a $25 deductible. It operates a feedback forum where it encourages users to rate one another. The auction site operates a software program that tracks individuals' bidding performance, looking for patterns associated with fraudulent behavior. And when it receives complaints of fraud, eBay forwards them to the FTC. So, although eBay cannot prevent all instances of fraud, it does provide an environment in which buyers and sellers feel protected.[35]

Responsibilities to Employees

Companies that can attract skilled and knowledgeable employees are better able to meet the challenges of competing globally. In return, businesses have wide-ranging responsibilities to their employees, both here and abroad. These include workplace safety, quality-of-life issues, avoiding discrimination, and preventing sexual harassment and sexism. Today, they also have to accommodate office workers who fear working in tall buildings.

Workplace Safety A century ago, few businesses paid much attention to the safety of their workers. In fact, most business owners viewed employees as mere cogs in the production process. Workers—many of whom were young children—toiled in frequently dangerous conditions. In 1911, a fire at the Triangle Shirtwaist Factory in New York City killed 146 people, mostly young girls. Contributing to the massive loss of life were the sweatshop working conditions at the factory, including overcrowding, blocked exits, and a lack of fire escapes. The horrifying tragedy forced businesses to begin to recognize their responsibility for their workers' safety.

The safety and health of workers on the job is now an important business responsibility. The Occupational Safety and Health Administration (OSHA) is the main federal regulatory force in setting workplace safety and health standards. These mandates range from broad guidelines on storing hazardous materials to specific standards for worker safety in industries such as construction, manufacturing, and mining. OSHA tracks and investigates workplace accidents and has the authority to fine employers who are found liable for injuries and deaths that occur on the job.

Although businesses occasionally complain about having to comply with too many OSHA regulations, ultimately management must set standards and implement programs to ensure that workers are safe in the workplace. The Jewel-Osco food-drug chain, the Midwest division of SuperValu, shows employees training videos about safe practices. The videos teach about fire safety, germs transmitted in blood, and actions to take if the store is robbed. The store makes special efforts to protect teenage employees. They are expected to read and sign a statement that they will not use any machinery, lift equipment (including the elevator), or meat slicers. Use of power equipment is limited by law to employees age 18 or older, and those employees must undergo training before the store permits them to use the equipment. Laws also extend extra protection to teenage workers by limiting the number of hours they work and the number of trips they may make away from their primary place of employment each day. Protection of young workers is

COURTESY OF OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION.

The Occupational Safety and Health Administration (OSHA) is the main federal agency responsible for workplace safety and health. The organization provides many resources for employers and employees, including this poster, to help reduce workplace accidents and injuries.

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DO YOU SMOKE? YOU'RE FIRED.

Weyco, a Michigan health benefits administrator, plans to randomly test its workers for tobacco use once a year and suspend or fire them if they fail—or even if they refuse to be tested. In fact, four employees who refused to take Weyco's test were fired.

Weyco also claims the right to search employee belongings if it suspects they contain tobacco. The policy created an uproar, but Weyco is not alone in its efforts to control worker behavior with an eye toward the bottom line. More than 440,000 tobacco-related deaths occur every year, with medical costs estimated at more than $75 billion.

Should employers have the right to prohibit smoking and other risky behavior away from the workplace?

PRO

1. Companies have a right to promote the health of their workers because they have invested time and effort to hire and train them. "The main goal is to elevate the health status of our employees," says Weyco's chief financial officer.
2. Firms need to control their skyrocketing health-care costs whenever possible, and smoking is a major factor in health claims. Lowering the cost of benefits improves profits, which is a gain for all stakeholders in the organization.

CON

1. What employees do on their own time is their own business. Work should not invade employee privacy at home.
2. Enforcing smoking bans could trigger other invasive monitoring. Such policies will encourage employers to prohibit still other off-site activities that have no relationship to performance of the job.

Summary

In states with "at-will" employment laws, employees can be fired for any or no reason. More than 20 states prohibit discrimination against workers (including firing) based on their lifestyle. One smokers' rights advocate says, "You're creating a class of unemployable citizens. It won't stand." But some companies are either refusing to hire, firing, raising health-insurance premiums for, or denying insurance coverage to employees who smoke, are overweight, have high cholesterol, or participate in risky activities. Investors Property Management in Seattle won't hire smokers, and Alaska Airlines' no-smoking policy includes testing new hires for tobacco use. Such rules have led some employees to quit smoking, but further challenges are sure to be thrown from both sides.

Sources: Barbara Wieland, "Grounds for Firing: Just About Anything," *Lansing (MI) State Journal*, accessed June 7, 2006, http://www.lsj.com; Stephanie Armour, "Trend: You Smoke? You're Fired!" *USA Today*, May 12, 2005, p. 1A; Karen Springen, "Smoking: Light Up and You May Be Let Go," *Newsweek*, February 7, 2005.

solving an ETHICAL controversy

especially significant because almost one workplace injury in three involves employees with less than a year's experience.[36] Some firms have gone a step further and want to protect workers off the job as well as on, as the "Solving an Ethical Controversy" feature discusses.

Quality-of-Life Issues Balancing work and family is becoming harder for many employees. They find themselves squeezed between working long hours and handling child-care problems, caring for elderly parents, and solving other family crises. A *sandwich generation* of households, those caring for two generations—their children and their aging parents—has arisen. As the population ages, the share of American households providing some type of care to a relative or friend age 50 or older has grown dramatically in the early years of the 21st century. At the same time, as married women spend more time working outside the home, they have fewer hours per week to spend on family. The employees juggling work with life's other demands aren't just working mothers. Childless couples, single people, and men all express frustration with the pressures of balancing work with family and personal needs. Peter Brand, a senior manager at PricewaterhouseCoopers, is determined to spend time with his two young children after work, even though it's a struggle to leave his office by 6 p.m. when his

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wife, Marcy, a manager at Southwest Airlines, picks the youngsters up on her way home. He is not alone in his desire for balance between work and family; 70 percent of the men in a recent study by the Families and Work Institute said they would accept less pay to spend more time with their families, and nearly half would rather have family time than a promotion.[37]

Helping workers find solutions to these quality-of-life issues has become an important concern of many businesses, but finding answers isn't always easy. Some companies offer flexible work arrangements to support employees. Other firms offer benefits such as subsidized child care or on-site education and shopping to assist workers trying to balance work and family. Some employees are carving out agreements with their firms that allow them to work part time.[38]

Another solution has been to offer **family leave** to employees who need to deal with family matters. Under the Family and Medical Leave Act of 1993, businesses with 50 or more employees must provide unpaid leave annually for any employee who wants time off for the birth or adoption of a child, to become a foster parent, or to care for a seriously ill relative or spouse. The law requires employers to grant up to twelve weeks of leave each year, and leave may be taken intermittently as medical conditions make necessary. This unpaid leave also applies to an employee who has a serious illness. Workers must meet certain eligibility requirements. Employers must continue to provide health benefits during the leave and guarantee that employees will return to equivalent jobs. The issue of who is entitled to health benefits can also create a dilemma as companies struggle to balance the needs of their employees against the staggering costs of health care.

Ensuring Equal Opportunity on the Job Businesspeople face many challenges managing an increasingly diverse workforce in the 21st century. Technological advances are expanding the ways people with physical disabilities can contribute in the workplace. Businesses also need to find ways to responsibly recruit and manage older workers and workers with varying lifestyles. In addition, beginning with Lotus Development in 1982, companies have begun to extend benefits equally to employees, regardless of sexual orientation. In particular, that means the company offers benefits such as health insurance to unmarried domestic partners if it offers them to spouses of married couples. Companies that now offer these gender-neutral benefits include Boeing, Citigroup, Disney, General Mills, and Prudential. This treatment reflects the view that all employee groups deserve the right to work in an environment that is nondiscriminatory.

To a great extent, efforts at managing diversity are regulated by law. The Civil Rights Act (1964) outlawed many kinds of discriminatory practices, and Title VII of the act specifically prohibits discrimination in employment. As shown in Table 2.2, other nondiscrimination laws include the Equal Pay Act (1963), the Age Discrimination in Employment Act (1967), the Equal Employment Opportunity Act (1972), the Pregnancy Discrimination Act (1978), the Civil Rights Act of 1991, and numerous executive orders. The Americans with Disabilities Act (1990) protects the rights of physically challenged people. The Vietnam Era Veterans Readjustment Act (1974) protects the employment of veterans of the Vietnam War.

The **Equal Employment Opportunity Commission (EEOC)** was created to increase job opportunities for women and minorities and to help end discrimination based on race, color, religion, disability, gender, or national origin in any personnel action. To enforce fair-employment laws, it investigates charges of discrimination and harassment and files suit against violators. The EEOC can also help employers set up programs to increase job opportunities for women, minorities, people with disabilities, and people in other protected categories.

Fair treatment of employees is more than a matter of complying with EEOC regulations, however. Like white male employees, women and people of color want opportunities to excel and rewards for excellence. They also want to be treated with respect. A minority employee

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Table 2.2 Laws Designed to Ensure Equal Opportunity

Law	Key Provisions
Title VII of the Civil Rights Act of 1964 (as amended by the Equal Employment Opportunity Act of 1972)	Prohibits discrimination in hiring, promotion, compensation, training, or dismissal on the basis of race, color, religion, sex, or national origin.
Age Discrimination in Employment Act of 1967 (as amended)	Prohibits discrimination in employment against anyone age 40 or older in hiring, promotion, compensation, training, or dismissal.
Equal Pay Act of 1963	Requires equal pay for men and women working for the same firm in jobs that require equal skill, effort, and responsibility.
Vocational Rehabilitation Act of 1973	Requires government contractors and subcontractors to take affirmative action to employ and promote qualified disabled workers. Coverage now extends to all federal employees. Coverage has been broadened by the passage of similar laws in more than 20 states and, through court rulings, to include people with communicable diseases, including AIDS.
Vietnam Era Veterans Readjustment Act of 1974	Requires government contractors and subcontractors to take affirmative action to employ and retain disabled veterans. Coverage now extends to all federal employees and has been broadened by the passage of similar laws in more than 20 states.
Pregnancy Discrimination Act of 1978	Requires employers to treat pregnant women and new mothers the same as other employees for all employment-related purposes, including receipt of benefits under company benefit programs.
Americans with Disabilities Act of 1990	Makes discrimination against the disabled illegal in public accommodations, transportation, and telecommunications; stiffens employer penalties for intentional discrimination on the basis of an employee's disability.
Civil Rights Act of 1991	Makes it easier for workers to sue their employers for alleged discrimination. Enables victims of sexual discrimination to collect punitive damages; includes employment decisions and on-the-job issues such as sexual harassment, unfair promotions, and unfair dismissal. The employer must prove that it did not engage in discrimination.
Family and Medical Leave Act of 1993	Requires all businesses with 50 or more employees to provide up to twelve weeks of unpaid leave annually to employees who have had a child or are adopting a child, are becoming foster parents, are caring for a seriously ill relative or spouse, or are themselves seriously ill. Workers must meet certain eligibility requirements.
Uniformed Services Employment and Reemployment Rights Act of 1994	Prohibits employers from denying employment benefits on the basis of employees' membership in or obligation to serve in the uniformed services and protects the rights of veterans, reservists, and National Guard members to reclaim their jobs after being absent due to military service or training.

who misses out on a plum assignment may miss out on the big raise that goes with it. As the employee's salary grows more slowly, managers may eventually begin to use the size of the salary as an indicator that the employee contributes less to the organization. Chapter 9 takes a closer look at diversity and employment discrimination issues as part of a discussion of human resources management.

Age Discrimination With the average age of U.S. workers steadily rising, the government expects more than half the workforce to be age 40 or older by 2010. Yet some employers find it less expensive to hire and retain younger workers, who generally have lower medical bills as well as lower salary and benefits packages. At the same time, many older workers have training and skills that younger workers have yet to acquire. The Age Discrimination in Employment Act of 1967 (ADEA) protects individuals who are age 40 or older, prohibiting discrimination on the basis of age and denial of benefits to older employees.

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Ruling in a recent lawsuit brought under ADEA, the Supreme Court determined that employers can be held liable for age discrimination against older workers even if they intended no harm. At the same time, the court allowed employers to use "reasonable" factors such as cost cutting to defend business practices that might have more severe impacts on older than on younger workers.[39]

Sexual Harassment and Sexism Every employer has a responsibility to ensure that all workers are treated fairly and are safe from sexual harassment. **Sexual harassment** refers to unwelcome and inappropriate actions of a sexual nature in the workplace. It is a form of sex discrimination that violates the Civil Rights Act of 1964, which gives both men and women the right to file lawsuits for intentional sexual harassment. More than 15,000 sexual harassment complaints are filed with the EEOC each year, of which about 12 percent are filed by men. Thousands of other cases are either handled internally by companies or never reported.

sexual harassment unwelcome and inappropriate actions of a sexual nature in the workplace.

Two types of sexual harassment exist. The first type occurs when an employee is pressured to comply with unwelcome advances and requests for sexual favors in return for job security, promotions, and raises. The second type results from a hostile work environment in which an employee feels hassled or degraded because of unwelcome flirting, lewd comments, or obscene jokes. The courts have ruled that allowing sexually oriented materials in the workplace can create a hostile atmosphere that interferes with an employee's ability to do the job. Employers are also legally responsible to protect employees from sexual harassment by customers and clients. The EEOC's Web site informs employers and employees of criteria for identifying sexual harassment and how it should be handled in the workplace.

Preventing sexual harassment can be difficult because it involves regulating the conduct of individual employees. Sometimes victims, especially young employees, are intimidated or unaware of their rights, but the EEOC has set up a Youth@Work program (http://youth.eeoc.gov) to ensure that young workers can learn about the various types of discrimination and ways to avoid them. The agency recently announced the settlement of a sexual harassment suit against a Missouri Burger King franchise brought by seven women, six of whom were teenagers.[40]

To avoid sexual harassment problems, many firms have established policies and employee education programs aimed at preventing such violations. An effective harassment prevention program should include the following measures:

- Issue a specific policy statement prohibiting sexual harassment.
- Develop a complaint procedure for employees to follow.
- Create a work atmosphere that encourages sexually harassed staffers to come forward.
- Investigate and resolve complaints quickly and take disciplinary action against harassers.

Unless all these components are supported by top management, sexual harassment is difficult to eliminate.

Sexual harassment is often part of the broader problem of **sexism**—discrimination against members of either sex, but primarily affecting women. One important sexism issue is equal pay for equal work. On average, U.S. women earn 76 cents for every dollar earned by men. In the course of a working lifetime, this disparity adds up to a gap of almost $426,000. The percentage of women who hold managerial and professional positions has grown to 50 percent. But that trend has not necessarily reduced the pay gap. And while men with children earn about 2 percent more than average, women with children earn 2.5 percent less than childless women. In terms of pay, full-time female employees in most industries—ranging from engineering, education, and banking to law, medicine, and technology—lag behind men. Female advertising executives earn $49,000 on average while men earn $56,000, and retail salespeople earn more than $31,000 if they are men compared with just less than $20,000 if they are women.[41]

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assessment check

1. What is green marketing?
2. What is corporate philanthropy?
3. What are the four main consumer rights?

In some extreme cases, differences in pay and advancement can become the basis for sex discrimination suits, such as those filed against Wal-Mart Stores and Morgan Stanley, the Wall Street brokerage house. Morgan Stanley recently settled the sex discrimination suit brought by the EEOC for $54 million; Wal-Mart is charged with discriminating against women in hiring, pay, and promotion decisions in an ongoing class-action suit.[42]

Responsibilities to Investors and the Financial Community

Although a fundamental goal of any business is to make a profit for its shareholders, investors and the financial community demand that businesses behave ethically as well as legally. When firms fail in this responsibility, thousands of investors and consumers can suffer.

State and federal government agencies are responsible for protecting investors from financial misdeeds. At the federal level, the Securities and Exchange Commission (SEC) investigates suspicions of unethical or illegal behavior by publicly traded firms. It investigates accusations that a business is using faulty accounting practices to inaccurately portray its financial resources and profits to investors. Regulation FD ("Fair Disclosure") is an SEC rule that requires publicly traded companies to announce major information to the general public, rather than first disclosing the information to selected major investors. The agency also operates an Office of Internet Enforcement to target fraud in online trading and online sales of stock by unlicensed sellers. Recall that the Sarbanes-Oxley Act of 2002 also protects investors from unethical accounting practices. Chapter 18 discusses securities trading practices further.

assessment check

1. Why do firms need to do more than just earn a profit?
2. What is the role of the Securities and Exchange Commission?

WHAT'S AHEAD

The decisions and actions of businesspeople are often influenced by outside forces such as the legal environment and society's expectations about business responsibility. Firms also are affected by the economic environments in which they operate. The next chapter discusses the broad economic issues that influence businesses around the world. Our discussion will focus on how factors such as supply and demand, unemployment, inflation, and government monetary policies pose both challenges and opportunities for firms seeking to compete in the global marketplace.

SUMMARY OF LEARNING GOALS

1 Explain the concepts of business ethics and social responsibility.

Business ethics refers to the standards of conduct and moral values that govern actions and decisions in the workplace. Businesspeople must take a wide range of social issues into account when making decisions. Social responsibility refers to management's acceptance of the obligation to consider profit, consumer satisfaction, and societal well-being of equal value in evaluating the firm's performance.

Assessment Check Answers

1.1 To whom do businesses have responsibilities?
Businesses are responsible to customers, employees, investors, and society.

1.2 If a firm is meeting all its responsibilities to others, why do ethical conflicts arise?
Ethical conflicts arise because business must balance doing what is right and doing what is profitable.

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2 Describe the factors that influence business ethics.

Among the many factors shaping individual ethics are personal experience, peer pressure, and organizational culture. Individual ethics are also influenced by family, cultural, and religious standards. Additionally, the culture of the organization where a person works can be a factor.

Assessment Check Answers

2.1 What role can an ethics compliance officer play in a firm?

Ethics compliance officers are charged with deterring wrongdoing and ensuring that ethical standards are met.

2.2 What factors influence the ethical environment of a business?

Individual ethics and technology influence the ethical environment of a business.

3 List the stages in the development of ethical standards.

In the preconventional stage, individuals primarily consider their own needs and desires in making decisions. They obey external rules only from fear of punishment or hope of reward. In the conventional stage, individuals are aware of and respond to their duty to others. Expectations of groups, as well as self-interest, influence behavior. In the final, postconventional stage, the individual can move beyond self-interest and duty to include consideration of the needs of society. A person in this stage can apply personal ethical principles in a variety of situations.

Assessment Check Answers

3.1 What is the preconventional stage in the development of ethical standards?

In the preconventional stage the individual looks out for his or her own interests and follows rules out of fear of punishment or hope of reward.

3.2 What is the difference between the conventional and the postconventional stages?

In the conventional stage, the person considers the interests and expectations of others, and in the postconventional stage, he or she considers personal, group, and societal interests.

4 Identify common ethical dilemmas in the workplace.

Conflicts of interest exist when a businessperson is faced with a situation in which an action benefiting one person has the potential to harm another, as when the person's own interests conflict with those of a customer. Honesty and integrity are valued qualities that engender trust, but a person's immediate self-interest may seem to require violating these principles. Loyalty to an employer sometimes conflicts with truthfulness. Whistle-blowing is a possible response to misconduct in the workplace, but the personal costs of doing so are high.

Assessment Check Answers

4.1 What are honesty and integrity and how do they differ?

Honesty is the trait of telling the truth; integrity goes beyond truthfulness and means adhering to deeply felt ethical principles.

4.2 How can loyalty and truth come into conflict for an employee?

Truth and loyalty can come into conflict when the truth about a company or situation is unfavorable.

5 Discuss how organizations shape ethical behavior.

Employees are strongly influenced by the standards of conduct established and supported within the organizations where they work. Businesses can help shape ethical behavior by developing codes of conduct that define their expectations. Organizations can also use this training to develop employees' ethics awareness and reasoning. They can foster ethical action through decision-making tools, goals consistent with ethical behavior, and advice hotlines. Executives must also demonstrate ethical behavior in their decisions and actions to provide ethical leadership.

Assessment Check Answers

5.1 What is a code of conduct?

A code of conduct is a formal statement defining the way the organization expects and requires employees to resolve ethical questions that arise at work.

5.2 How does ethical leadership contribute to ethical standards throughout a company?

Employees more readily commit to the company's core values when they see that leaders and managers

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behave ethically and when the ethics program is not seen as a way to protect top executives from being blamed for wrongdoing.

6 Describe how businesses' social responsibility is measured.

Today's businesses are expected to weigh their qualitative impact on consumers and society, in addition to their quantitative economic contributions such as sales, employment levels, and profits. One measure is their compliance with labor and consumer protection laws and their charitable contributions. Another measure some businesses take is to conduct social audits. Public-interest groups also create standards and measure companies' performance relative to those standards. Consumers may boycott groups that fall short of social standards.

Assessment Check Answers

6.1 What is meant by social responsibility and why do firms exercise it?

Social responsibility is management's acceptance of its obligation to consider profit, consumer satisfaction, and societal well-being to be of equal value when evaluating the firm's performance. Businesses exercise it because it is required by law, because it enhances the company's image, or because management believes it is ethical to do so.

6.2 What is a social audit?

A social audit is a formal procedure to identify and evaluate all company activities that relate to social issues such as conservation, employment practices, environmental protection, and philanthropy.

7 Summarize the responsibilities of business to the general public, customers, and employees.

The responsibilities of business to the general public include protecting the public health and the environment and developing the quality of the workforce. Additionally, many would argue that businesses have a social responsibility to support charitable and social causes in the communities in which they earn profits. Business also has a social and ethical responsibility to treat customers fairly and protect consumers upholding the rights to be safe, to be informed, to choose, and to be heard. Businesses have wide-ranging responsibilities to their workers. They should make sure that the workplace is safe, address quality-of-life issues, ensure equal opportunity, and prevent sexual harassment.

Assessment Check Answers

7.1 What is green marketing?

Green marketing is a marketing strategy that promotes environmentally safe products and production methods.

7.2 What is corporate philanthropy?

Corporate philanthropy includes cash contributions, donations of equipment and products, and support for the volunteer efforts of company employees.

7.3 What are the four main consumer rights?

The four main consumer rights are the right to be safe, to be informed, to choose, and to be heard.

8 Explain why investors and the financial community are concerned with business ethics and social responsibility.

Investors and the financial community demand that businesses behave ethically as well as legally in handling their financial transactions. Businesses must be honest in reporting their profits and financial performance to avoid misleading investors. The Securities and Exchange Commission is the federal agency responsible for investigating suspicions that publicly traded firms have engaged in unethical or illegal financial behavior.

Assessment Check Answers

8.1 Why do firms need to do more than just earn a profit?

Firms need to do more than just earn a profit because the law requires them to behave in a legal and ethical manner and because investors and shareholders demand such behavior.

8.2 What is the role of the Securities and Exchange Commission?

Among other functions the Securities and Exchange Commission investigates suspicions of unethical or illegal behavior by publicly traded firms.

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Business Terms You Need to Know

Sarbanes-Oxley Act 32
business ethics 32
conflict of interest 37
whistle-blowing 39
code of conduct 40
social responsibility 43
recycling 45
corporate philanthropy 47
consumerism 48
sexual harassment 55

Other Important Business Terms

boycott 37
integrity 39
social audit 43
pollution 45
green marketing 46
product liability 48
family leave 53
Equal Employment Opportunity Commission (EEOC) 53
sexism 55

Review Questions

1. What do the terms *business ethics* and *social responsibility* mean? Cite an example of each. Who are the main constituents that businesses must consider?
2. Identify and describe briefly the three stages in which individuals typically develop ethical standards. What are some of the factors that determine the stage of moral and ethical development an individual occupies at any given time?
3. What are the four most common ethical challenges that businesspeople face? Give a brief example of each.
4. What are the four levels of development of a corporate culture to support business ethics? Describe each briefly.
5. How do organizational goals affect ethical behavior? How might these goals interfere with ethical leadership? Give an example.
6. What basic consumer rights does the consumerism movement try to ensure? How has consumerism improved the contemporary business environment?
7. What are some of the major factors that contribute to the assessment of a company's social performance?
8. Identify the major benefits of corporate philanthropy.
9. What are some of the responsibilities that firms have to their employees?
10. What are quality-of-life issues? How can companies best meet them?
11. What laws protect employees from age discrimination? From sexual harassment?
12. How does a company demonstrate its responsibility to investors and the financial community?

Projects and Teamwork Applications

1. Write your own personal code of ethics, detailing your feelings about ethical challenges such as lying to protect an employer or co-worker, favoring one client over another, misrepresenting credentials to an employer or client, and using the computer for personal purposes while at work. What role will your personal ethics play in deciding your choice of career and acceptance of a job?
2. "Everybody exaggerates when it comes to selling products, and customers ought to take that with a grain of salt," said one advertising executive recently in response to a complaint filed by the Better Business Bureau about misleading advertising. "Don't we all have a brain, and can't we all think a little bit, too?" Do you agree with this statement? Why or why not?

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3. Imagine that you work for a company that makes outdoor clothing, such as L.L. Bean, Timberland, or Patagonia. Write a memo describing at least four specific ways in which your company could practice corporate philanthropy. Include the benefits you think the company and the community would realize from such actions.
4. Imagine that you are the human resources director for a company that is trying to establish a written policy to outline its responsibilities to its employees. Choose one of the responsibilities described in the chapter—such as workplace safety—and write a memo describing specific steps your company will take to fulfill that responsibility.
5. Suppose that you own a small firm with twelve employees. One employee tells you in confidence that he has just learned he is HIV positive. You know that healthcare costs for AIDS patients can be disastrously high, and this expense could drastically raise the health insurance premiums that your other employees must pay. What are your responsibilities to this employee? To the rest of your staff? Explain.

Case 2.1

U.S. Federal Sentencing Guidelines: The Carrot and the Stick

The U.S. Federal Sentencing Guidelines were originally designed to help the government find meaningful and consistent ways to sentence organizations—including public and private companies and not-for-profits—convicted of crimes. After discovering that similar cases had been resolved differently by the courts, the Sentencing Commission enacted guidelines that rely on what legislators call the stick-and-carrot approach to corporate ethics: The financial penalties that the courts can impose for wrongdoing are the stick, while the existence of an effective ethics program can reduce the fines the courts can set, which serves as the carrot.

The guidelines make organizations subject to sentencing, fines, and probation if they are convicted of violations of antitrust, securities, bribery, fraud, money laundering, criminal activities, extortion, embezzlement, or conspiracy laws. Because organizations are liable for the offenses committed by their officers, the guidelines were intended to provide for just punishment, deterrence, and the creation of internal company policies to prevent unlawful behavior.

To define what an "effective" ethics program looks like, the guidelines identify seven elements it should include:

1. standards and procedures, such as a code of ethics, to prevent or detect wrongdoing
2. responsibility at all levels and oversight at a high level, such as an ethics officer
3. due care in the delegation of authority
4. communication of the code of ethics, such as training, at all levels
5. auditing, monitoring, and reporting systems, such as an ethics hotline free of internal repercussions
6. enforcement of established ethical standards, including incentives and disciplinary measures
7. appropriate response to any wrongdoing that is found, including prevention of any recurrence

Thousands of U.S. companies have responded by creating new or enhancing existing ethics programs. Even organizations abroad have reacted, such as the CBIC, a bank in Canada, and the Bank of Tokyo, which has adopted the guidelines as the centerpiece of its own compliance program. Surveys of employees find that the changes are making themselves felt in the workplace, and observers believe they are occurring primarily in the areas of ethics training, the establishment of ethics offices and appointment of ethics officers, and the creation of ethics hotlines. Codes of ethics appear to have been affected the least, mostly because according to one survey, about 93 percent of firms already had such a code in place.

After tracking responses for about ten years, the Sentencing Commission strengthened the criteria in order to reflect "best practices" among organizations that had applied them since enactment and the Sarbanes-Oxley Act. These revisions were meant to provide an even clearer model of the "corporate good citizen" and make it easier for organizations both large

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and small to comply. Some of the changes increase the responsibility of boards of directors and top executives to demonstrate ethical leadership, require the organization to show due diligence in fulfilling the guidelines, and require it to cultivate an organizational culture that encourages ethical conduct and a commitment to compliance with the law. Firms must also periodically assess the risk that criminal behavior might occur in their organizations.

Questions for Critical Thinking

1. Which do you think will be more effective in ensuring that organizations act in ethical ways, the carrot or the stick? Why?
2. Do you think the Sentencing Guidelines provide a sound basis for creating and maintaining a corporate ethics program? Why or why not? If not, how would you modify them?

Sources: "An Overview of the United States Sentencing Commission and the Federal Sentencing Guidelines," U.S. Sentencing Commission, accessed June 7, 2006, http://www.ussc.gov; Dove Izraeli and Mark S. Schwartz, "What Can We Learn from the U.S. Federal Sentencing Guidelines for Organizational Ethics?" European Institute for Business Ethics, accessed June 7, 2006, http://www.itcilo.it/english; Stanley A. Twardy, "Compliance Programs to Detect and Prevent Crime: Amended Federal Sentencing Guidelines," FindLaw, accessed June 7, 2006, http://library.findlaw.com.

VIDEO

Case 2.2

Ford Turns Green with Clean Energy

This video case appears on page 609. A recently filmed video, designed to expand and highlight the written case, is available for class use by instructors.