Ethics and Corporate Responsibility

Walmart, the world’s largest retailer, has gone green. Since 2005 it has worked to plan and execute a sustainability strategy that includes using renewable energy sources, reducing its waste, and selling sustainable products. A packaging scorecard helps Walmart’s 60,000 suppliers learn about Walmart’s expectations and guides the firm in making its purchasing decisions. The company has built energy-efficient stores and retrofitted others, and it offers reusable shopping bags made of recycled materials. Although Walmart doesn’t disclose financial details on the green initiative, it says the program is already saving money and resources, and it projects billions in savings over time.¹

Hear the True Story

of how today’s managers do the right thing. Listen to what Derrick and Elaine have to say.

“Ethics are crucial in the property management business. We are obligated to abide by fair housing laws in our day-to-day operations. Not only do we have an obligation as a company but also a social obligation to make sure our vendors and contractors are aware of these practices.”

— Derrick Hawthorne, Property Manager

“The very nature and mission of my project is that of social responsibility. We are trying to do our part to help out developing countries in a way that an agricultural library is best equipped to do. Good workplace ethics translates into a better product for our subscribers. The better I and my employees perform, the better our product and the most useful it is to the end users, thus furthering the idea of social responsibility.”

— Elaine Guidero, Library Manager
WHAT YOU NEED TO KNOW

● learning OBJECTIVES

After studying Chapter 3, you will be able to:

L01 Describe how different ethical perspectives guide decision making.

L02 Explain how companies influence their ethics environment.

L03 Outline a process for making ethical decisions.

L04 Summarize the important issues surrounding corporate social responsibility.

L05 Discuss reasons for businesses’ growing interest in the natural environment.

L06 Identify actions managers can take to manage with the environment in mind.
This chapter addresses the values and manner of doing business adopted by managers as they carry out their corporate and business strategies. In particular, we will explore ways of applying ethics, the system of rules that governs the ordering of values. We do so based on the premise that managers, their organizations, and their communities thrive over the long term when the managers apply ethical standards that direct them to act with integrity. In addition, we consider the idea that organizations may have a responsibility to meet social obligations beyond earning profits within legal and ethical constraints. As you study this chapter, consider what kind of manager you want to be. What reputation do you hope to have? How would you like others to describe your behavior as a manager?

**It’s a big issue**

Recent scandals engulfed company executives, independent auditors, politicians and regulators, and shareholders and employees. In some, executives at public companies made misleading statements to inflate stock prices, undermining the public’s trust in the integrity of the financial markets. Often, the scandals were perpetrated by several people cooperating, and many of the guilty parties had been otherwise upstanding individuals. Lobbyists have been accused—and some convicted—of buying influence with lavish gifts to politicians. Executives have admitted they received huge bonuses or stock options that were backdated to guarantee they would make money from investing in their company, regardless of whether their performance caused the stock’s value to rise or fall. What other news disturbs you about managers’ behavior? Tainted products in the food supply . . . damage to the environment . . . Internet scams . . . employees pressured to meet sales or production targets by any means? The list goes on, and the public becomes cynical. In a survey by public relations firm Edelman, barely more than half of American respondents said they trust business, and less than one-fourth said they trust CEOs. They’re even suspicious of their own company’s management; only 31 percent said they trust their own CEO. Try to imagine the challenge of leading employees who don’t trust you.

Sadly, when corporations behave badly, it’s often not the top executives but the rank-and-file employees who suffer most. When companies such as energy trader Enron and insurance brokerage firm Marsh & McLennan saw their stocks tumble following scandals, executives were left with millions of dollars from their generous pay and bonus packages. In contrast, employees, who had been encouraged to invest their retirement packages heavily in their company’s stock, saw their savings disappear along with their company’s reputation.

Still, simply talking about Enron and other famous cases as examples of lax company ethics doesn’t get at the heart of the problem. Clearly, these cases involve “bad guys,” and the ethical lapses are obvious. But saying “I would never do things like that” becomes too easy. The fact is that temptations exist in every organization. In a survey called the Spherion Workplace Snapshot, more than one-third of U.S. adults said they had observed unethical conduct at work. About one out of five reported seeing abuse or intimidation of employees; lying to employees, customers, vendors, or the public; or situations in which employees placed their own interests ahead of their company’s interests.

The motivations aren’t always as obvious as greed. Another survey, conducted by the American Management Association and the Human Resource Institute, found that the top justification given for unethical behavior was “pressure to meet unrealistic goals and deadlines.” Many of the decisions you will face as a manager will pose ethical dilemmas, and the right thing to do is not always clear.

**It’s a personal issue**

“It is truly enough said that a corporation has no conscience; but a corporation of conscientious men is a corporation with a conscience.” —Henry David Thoreau

“Answer true or false: ‘I am an ethical manager.’ If you answered ‘true,’ here’s an uncomfortable fact: You’re probably not.” These sentences are the first in a Harvard Business Review article called “How (Un)Ethical Are You?” The point is that most of us think we are good decision makers, ethical and unbiased. But the fact is, most people have unconscious biases that favor themselves and their own group. For example, managers often hire people...
who are like them, think they are immune to conflicts of interest, take more credit than they deserve, and blame others when they deserve some blame themselves.

To know that you have biases may help you try to overcome them, but usually that’s not enough. Consider the basic ethical issue of telling a lie. Many people lie—some more than others, and in part depending on the situation, usually presuming that they will benefit from the lie. At a basic level, we all can make ethical arguments against lying and in favor of honesty. Yet it is useful to think thoroughly about the real consequences of lying. Table 3.1 summarizes the possible outcomes of telling the truth or lying in different situations. People often lie or commit other ethical transgressions somewhat mindlessly, without realizing the full array of negative personal consequences.

Ethics issues are not easy, and they are not faced only by newsworthy corporate CEOs. You will face them; no doubt, you already have. You’ve got your own examples, but consider this one: more and more people at work use computers with Internet access. If the employer pays for the computer and the time you spend sitting in front of it, is it ethical for you to use the computer to do tasks unrelated to your work? Would you bend the rules for certain activities or certain amounts of time? Maybe you think it’s OK to do a little online shopping during your lunch hour or to check scores during the World Series or March Madness. But what if you stream video of the games for your own and your coworkers’ enjoyment or take a two-hour lunch to locate the best deal on a flat-panel TV?

Besides lost productivity, employers are most concerned about computer users introducing viruses, leaking confidential information, and creating a hostile work environment by downloading inappropriate Web content. Sometimes employees write blogs or post comments online about their company and its products. Obviously, companies do not want their employees to say bad things about them, but some companies are concerned about employees who are overly enthusiastic. When employees plug their companies and products on comments pages, this practice is considered spamming at best and deceptive if the employees don’t disclose their relationship with their company. Another practice considered deceptive is when companies create fictional blogs as a marketing tactic without disclosing their sponsorship. And in a practice known as Astroturfing—because the “grassroots” interest it builds is fake—businesses pay bloggers to write positive comments about them. A Florida company known as PayPerPost will match advertisers with bloggers but now requires bloggers to disclose the relationship. Companies such as Coca-Cola, UPS, and IBM have established guidelines directing employees to identify themselves accurately in online communications so that they can participate in online conversations about their companies without being accused of deception.

### Table 3.1: Telling the Truth and Lying: Possible Outcomes

<table>
<thead>
<tr>
<th>Reason and Context of the Lie</th>
<th>Results of Lying</th>
<th>Results of Truth-Telling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conflicting expectations</td>
<td>• Easier to lie than to address the underlying conflict.</td>
<td>• Emotionally more difficult than lying.</td>
</tr>
<tr>
<td></td>
<td>• Offers quick relief of the issue.</td>
<td>• May correct underlying problem.</td>
</tr>
<tr>
<td></td>
<td>• Leaves the underlying problem unresolved.</td>
<td>• May provoke further conflict.</td>
</tr>
<tr>
<td></td>
<td>• May have no meaningful consequences, good or bad.</td>
<td>• Sometimes difficult to have an impact on an impermeable structure.</td>
</tr>
<tr>
<td></td>
<td>• Liar must rationalize the action in order to preserve positive self-concept.</td>
<td>• Develops one’s reputation as an “honest” person.</td>
</tr>
<tr>
<td>Negotiation</td>
<td>• Short-term gain.</td>
<td>• Supports high-quality long-term relationship.</td>
</tr>
<tr>
<td></td>
<td>• Economically positive.</td>
<td>• Develops reputation of integrity.</td>
</tr>
<tr>
<td></td>
<td>• Harms long-term relationship.</td>
<td>• Models behavior to others.</td>
</tr>
<tr>
<td></td>
<td>• Must rationalize to oneself.</td>
<td></td>
</tr>
<tr>
<td>Keeping a confidence (that may require at least a lie of omission)</td>
<td>• Protects whatever good reason there is for the confidence.</td>
<td>• Violates a trust to the confiding party.</td>
</tr>
<tr>
<td></td>
<td>• Maintains a long-term relationship with the party for whom confidence is kept.</td>
<td>• Makes one appear deceitful to all parties in the long run.</td>
</tr>
<tr>
<td></td>
<td>• May project deceitfulness to the deceived party.</td>
<td>• Creates the impression of honesty beyond utility.</td>
</tr>
<tr>
<td>Reporting your own performance within an organization</td>
<td>• Might advance oneself or one’s cause.</td>
<td>• Creates reputation of integrity.</td>
</tr>
<tr>
<td></td>
<td>• Develops dishonest reputation over time.</td>
<td>• May not always be positive.</td>
</tr>
<tr>
<td></td>
<td>• Must continue the sequence of lies to appear consistent.</td>
<td></td>
</tr>
</tbody>
</table>

Are these examples too small to worry about? What do you do that has potential ethical ramifications? This chapter will help you think through decisions with ethical ramifications.

**L O 1 WHAT YOU NEED TO KNOW . . .**

How do different ethical perspectives guide decision making?

## ETHICS

The aim of ethics is to identify both the rules that should govern people's behavior and the "goods" that are worth seeking. Ethical decisions are guided by the underlying values of the individual. Values are principles of conduct such as caring, being honest, keeping promises, pursuing excellence, showing loyalty, being fair, acting with integrity, respecting others, and being a responsible citizen.

Most people would agree that all of these values are admirable guidelines for behavior. However, ethics becomes a more complicated issue when a situation dictates that one value overrules others. An **ethical issue** is a situation, problem, or opportunity in which an individual must choose among several actions that must be evaluated as morally right or wrong. Ethical issues arise in every facet of life; we concern ourselves here with business ethics in particular. **Business ethics** comprises the moral principles and standards that guide behavior in the world of business.

### Ethical systems shape how you apply ethics

**Moral philosophy** refers to the principles, rules, and values people use in deciding what is right or wrong. This seems to be a simple definition but often becomes terribly complex and difficult when facing real choices. How do you decide what is right and wrong? Do you know what criteria you apply and how you apply them?

Ethics scholars point to various major ethical systems as guides. We will consider five of these:

1. Universalism
2. Egoism
3. Utilitarianism
4. Relativism
5. Virtue ethics

These major ethical systems underlie personal moral choices and ethical decisions in business.

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**universalism** According to **universalism**, all people should uphold certain values, such as honesty and other values that society needs to function. Universal values are principles so fundamental to human existence that they are important in all societies—for example, rules against murder, deceit, torture, and oppression.

Some efforts have been made to establish global, universal ethical principles for business. The Caux Roundtable, a group of international executives based in Caux, Switzerland, worked with business leaders from Japan, Europe, and the United States to create the **Caux Principles for Business.** Two basic ethical ideals underpin the Caux Principles: *kyosei* and human dignity. *Kyosei* means living and working together for the common good, allowing cooperation and mutual prosperity to coexist with healthy and fair competition. Human dignity concerns the value of each person as an end, not a means to the fulfillment of others' purposes.

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**DID YOU KNOW?**

Are women more ethical than men? Studies have implied they are, at least by some measures. Surveys of business students found an increase in their interest in studying ethics, with a greater increase among women. Compared with their female counterparts, undergraduate male students in business and psychology showed stronger unethical attitudes and a tendency to behave unethically. When business students took an ethics curriculum, women made greater strides than men in improving their moral awareness and decision-making processes.

Universal principles can be powerful and useful, but what people say, hope, or think they would do is often different from what they **really** do, faced with conflicting demands in real situations. Before we describe other ethical systems, consider the following example, and think about how you or others would resolve it.

Suppose that Sam Colt, a sales representative, is preparing a sales presentation on behalf of his firm, Midwest Hardware, which manufactures nuts and bolts. Colt hopes to obtain a large sale from a construction firm that is building a bridge across the Missouri River near St. Louis. The
bolts manufactured by Midwest Hardware have a 3 percent defect rate, which, although acceptable in the industry, makes them unsuitable for use in certain types of projects, such as those that might be subject to sudden, severe stress. The new bridge will be located near the New Madrid Fault line, the source of a major earthquake in 1811. The epicenter of that earthquake, which caused extensive damage and altered the flow of the Missouri, is about 190 miles from the new bridge site.

Bridge construction in the area is not regulated by earthquake codes. If Colt wins the sale, he will earn a commission of $25,000 on top of his regular salary. But if he tells the contractors about the defect rate, Midwest may lose the sale to a competitor whose bolts are slightly more reliable. Thus, Colt’s ethical issue is whether to point out to the bridge contractor that in the event of an earthquake, some Midwest bolts could fail. 16

**egoism and utilitarianism**

According to *egoism*, acceptable behavior is that which maximizes benefits for the individual. “Doing the right thing,” the focus of moral philosophy, is defined by egoism as “do the act that promotes the greatest good for oneself.” If everyone follows this system, according to its proponents, the well-being of society as a whole should increase. This notion is similar to Adam Smith’s concept of the invisible hand in business. Smith argued that if every organization follows its own economic self-interest, the total wealth of society will be maximized.

Unlike egoism, *utilitarianism* directly seeks the greatest good for the greatest number of people. Consider whether utilitarianism would help guide ethical decision making with regard to student loan programs. Recently, New York’s attorney general, Andrew Cuomo, investigated 100 colleges and half a dozen lenders for arrangements in which the lenders allegedly offered payments, stock grants, and perks to schools, and the schools listed the companies as “preferred lenders” in information given to students who wanted to borrow tuition money from private sources. For example, Citibank’s student loan group had been paying schools a percentage of the loans resulting from referrals by the schools. Cuomo called the arrangements “kickbacks”; some schools replied that they were not being corrupted but used the money to add to the financial aid they could award to students. The investigation also looked into why at least one university’s financial aid official owned stock in one of its “preferred” lenders, Student Loan Xpress—an arrangement that could be seen as a conflict of interest. 17

Whereas ethics based on egoism would accept actions that allow the lenders to maximize their earnings and the financial aid officers to pursue whatever arrangements benefit themselves and their schools, utilitarianism requires a broader view. Most obviously, there is the question of what these arrangements cost students who make borrowing decisions on the assumption that “preferred” lenders will give students the best deals. But other students benefited if payments from lenders were used to augment the financial aid given to other students. The utilitarian approach might consider

- How many students benefited
- How much those students benefited
- How many students paid extra for loans
- How much more they paid

In fact, the companies involved may have preferred standards other than utilitarianism. Citibank responded to the allegations by agreeing to a code of conduct that forbids gifts in exchange for “preferred” status, and Student Loan Xpress’s parent company, CIT Group, placed three executives on leave while it investigated the allegations.18
**relativism** It may seem that an individual makes ethical choices personally, applying personal perspectives. But this view is not necessarily true. **Relativism** defines ethical behavior based on the opinions and behaviors of relevant other people. In the previous example of student loans, U.S. business, government, and society largely agree that bribes, kickbacks, and conflicts of interest would not be acceptable behaviors for people in the lending industry—perhaps even less so for those charged with serving students. Those standards help to explain the rapid actions taken by the organizations when they found out about the situation.

Relativism acknowledges the existence of different ethical viewpoints. For example, *norms*, or standards of expected and acceptable behavior, vary from one culture to another. A study of Russian versus U.S. managers found that all followed norms of seeking informed consent about chemical hazards in work situations and paying wages on time. But in Russia more than in the United States, businesspeople were likely to consider the interests of a broader set of stakeholders (in this study, keeping factories open for the sake of local employment), to keep double books to hide information from tax inspectors and criminal organizations, and to make personal payments to government officials in charge of awarding contracts. 19

Relativism defines ethical behavior according to how others behave.

**virtue ethics** The moral philosophies just described apply different types of rules and reasoning. **Virtue ethics** is a perspective that goes beyond the conventional rules of society by suggesting that what is moral must also come from what a mature person with good “moral character” would deem right. Society’s rules provide a moral minimum; moral individuals can transcend rules by applying their personal virtues such as faith, honesty, and integrity.

Yet, individuals differ in their moral development. **Kohlberg’s model of cognitive moral development** classifies people into categories based on their level of moral judgment. 21 People in the preconventional stage make decisions based on concrete rewards and punishments and immediate self-interest. People in the conventional stage conform to the expectations of ethical behavior held by groups or institutions such as society, family, or peers. People in the principled stage see beyond authority, laws, and norms and follow their self-chosen ethical principles. 22 Some people forever reside in the preconventional stage, some move into the conventional stage, and some develop even further into the principled stage. Over time, and through education and experience, people may change their values and ethical behavior.

Returning to the bolts-in-the-bridge example, egoism would result in keeping quiet about the bolts’ defect rate. Utilitarianism would dictate a more thorough cost-benefit analysis and possibly the conclusion that the probability of a bridge collapse is so low compared to the utility of jobs, economic growth, and company growth that the defect rate is not worth mentioning. The relativist perspective might prompt the salesperson to look at company policy and general industry practice, and to seek opinions from colleagues and perhaps trade journals and ethics codes. Whatever is then perceived to be a consensus or normal practice would dictate action. Finally, virtue ethics, applied by people in the principled stage of moral development, would likely lead to full disclosure about the product and risks, and perhaps suggestions for alternatives that would reduce the risk.23

**DID YOU KNOW?**

In a recent survey ranking 180 nations from most to least honest, the United States came in 18th (tied with Japan and Belgium). The U.S. rating of 7.3 on a 10-point scale placed it among only 22 countries that scored at least a 7.0. The top ratings went to Denmark, Sweden, and New Zealand, each with 9.3. The bottom-ranked nations, including Somalia, Myanmar, and Iraq, tend to be among the poorest. Sadly, the combination of corruption and poverty in these nations can literally amount to a death sentence for many of their citizens. 24

**Business ethics are valued but sometimes lacking**

Insider trading, illegal campaign contributions, bribery and kickbacks, famous court cases, and other scandals have created a perception that business leaders use illegal means to gain competitive advantage, increase profits, or improve their personal positions. Neither young managers nor consumers believe top executives are doing a good job of establishing high ethical standards. 25 Some even joke that business ethics has become a contradiction in terms. Too often, these opinions are borne out by actual workplace experiences. In a recent survey of 700 employees holding a variety of jobs, 39 percent said their supervisor sometimes didn’t keep promises, 24 percent said their supervisor had invaded their privacy, and
In business practices. But many managers and their organizations must deal frequently with ethical dilemmas, and the issues are becoming increasingly complex. Here are just a few of the dilemmas challenging managers and employees today:

- Brands—In-your-face marketing campaigns have sparked antibrand attitudes among people who see tactics as manipulative and deceptive.
- CEO pay—Nearly three-fourths of Americans say executives’ pay packages are excessive.
- Commercialism in schools—Parent groups in hundreds of communities have battled advertising in the public schools.
- Religion at work—Many people seek spiritual renewal in the workplace, in part reflecting a broader religious awakening in America, while others argue that this trend violates religious freedom and the separation of church and boardroom.
- Sweatshops—At many colleges, students have formed anti-sweatshop groups, which picket clothing manufacturers, toymakers, and retailers.
- Wages—More than half of workers feel they are underpaid, especially as wages since 1992 have not grown as fast as productivity levels.

Two young men were arrested for hanging neon-lit boxes around Boston; the boxes were mistaken for explosives. But it turned out that the devices were nothing more than advertisements for an animated television show and movie produced by Cartoon Network, which is owned by Turner Broadcasting Systems. Parts of Boston were shut down for hours, police and other security resources were assigned to remove the boxes, and businesses and residents suffered from the incident. But who was responsible? Did the men display poor judgment by accepting the job? Or did responsibility ultimately lie with Cartoon Network and Turner Broadcasting?

Within several days, the head of Cartoon Network resigned, and Turner Broadcasting agreed to pay more than $1 million to the City of Boston as compensation for its emergency-response costs. Although similar boxes had been placed in nine other cities, none prompted the reaction that took place in Boston. “This is an irrational act,” stated Kelly O’Keefe, director of executive education at the Virginia Commonwealth University Adcenter. “It is really guerrilla marketing gone awry, and it is inexcusable.”

**Society demands an ethical climate**

Responding to a series of corporate scandals—particularly the high-profile cases of Enron and WorldCom—Congress passed the Sarbanes-Oxley Act in 2002 to improve and maintain investor confidence. The law requires companies to do the following:

- Have more independent board directors, not just company insiders
- Have senior managers personally sign off on financial results
- Adhere strictly to accounting rules

Violations could result in heavy fines and criminal prosecution. One of the biggest impacts of the law is the requirement for companies and their auditors to provide reports to financial statement users about the effectiveness of internal controls over the financial reporting process.

Companies that make the effort to meet or exceed these requirements can reduce their risks by lowering the likelihood of misdeeds and the consequences if an employee does break the law. Responding to a directive in the Sarbanes-Oxley Act, the U.S. Sentencing Commission modified the sentencing guidelines to say that organizations convicted of federal criminal laws may receive more lenient sentences if they are shown to have established an effective compliance and ethics program. To meet the requirements of these guidelines, organizations should establish written standards of ethical conduct and controls for enforcing them, assign responsibility to top managers to ensure that the program is working as intended, exclude anyone who violates the standards from holding management positions, provide training in ethics to all employees, monitor compliance, give employees incentives for complying and consequences for violating the standards, and respond with consequences and additional preventive measures if criminal conduct comes to light.

Some executives say Sarbanes-Oxley distracts from their real work and makes them more risk averse. Some complain about the time and money needed to comply with the internal control reporting—reportedly spending millions of dollars for technology upgrades. Others point out that unethical behavior has negative consequences, especially when it includes illegal
actions that later come to light. For example, companies that set up a hotline at which employees can report illegal or unethical conduct can find out when employees are engaged in fraud. Not only can fraud hurt customers, but it can also hurt the company itself when employees find ways to keep the company’s cash or goods. The Association of Certified Fraud Examiners found that U.S. companies lose about 6 percent of their annual sales to fraud, but the losses are less than half that at organizations with a mechanism for reporting misconduct.30 Regardless of managers’ attitudes toward Sarbanes-Oxley, it creates legal requirements intended to improve ethical behavior.

Ethics are not shaped only by laws and by individual development and virtue. They also may be influenced by the company’s work environment. The ethical climate of an organization refers to the processes by which decisions are evaluated and made on the basis of right and wrong.31 For example, General Electric’s top executives have demonstrated a commitment to promoting high levels of integrity without sacrificing the company’s well-known commitment to business results. The measures taken by GE to maintain a positive ethical climate include establishing global standards for behavior to prevent ethical problems such as conflicts of interest and money laundering. As managers monitor the external environment, they are expected to consider legal and ethical developments, along with other concerns, so that the company can be prepared for new issues as they arise. Managers at all levels are rewarded for their performance in meeting both integrity and business standards, and when violations occur, even managers who were otherwise successful are disciplined, sending a powerful message that ethical behavior is truly valued at GE.32

When people make decisions that are judged by ethical criteria, certain questions always seem to get asked: Why did she do it? Good motives or bad ones? His responsibility or someone else’s? Who gets the credit, or the blame? So often, responsibility for unethical acts is placed squarely on the individual who commits them. But the work environment has a profound influence, as well. When employees feel pressured to meet unreasonable goals or deadlines, they may act individually, but managers are in part responsible for setting the right standards, selecting employees with the ability to meet standards, and providing employees with the resources required for success. Managers also need to keep the lines of communication open so that employees will discuss problems in meeting goals, rather than resorting to unethical and possibly illegal behavior.

Unethical corporate behavior may be the responsibility of an unethical individual, but it often also reveals a company culture that is ethically lax.33 Maintaining a positive ethical climate is always challenging, but it is especially complex for organizations with international activities. Different cultures and countries may have different standards of behavior, and managers have to decide when relativism is appropriate, rather than adherence to firm standards. For example, consider the following real situations where ethics-related decisions have arisen in an international context. What would you do in each situation?

• You are a sales representative for a construction company in the Middle East. Your company wants very much to land a particular project. The cousin of the minister who will award
danger signs  In organizations, maintaining consistent ethical behavior by all employees is an ongoing challenge. What are some danger signs that an organization may be allowing or even encouraging unethical behavior? Many factors, including the following, create a climate conducive to unethical behavior:

- Excessive emphasis on short-term revenues over longer-term considerations
- Failure to establish a written code of ethics
- Desire for simple, “quick fix” solutions to ethical problems
- Unwillingness to take an ethical stand that may impose financial costs
- Consideration of ethics solely as a legal issue or a public relations tool
- Lack of clear procedures for handling ethical problems
- Responsiveness to the demands of shareholders at the expense of other constituencies

To understand your organization’s ethics climate, think about issues from the employees’ perspective. What do people think is required to succeed? Do they think that ethical people “finish last” and that the “bad guys win”? Or vice versa, that the company rewards ethical behavior and won’t tolerate unethical behavior? Lynn Brewer, who brought to light the financial misdeeds of Enron, also heard Enron’s management advocate values such as respect and integrity, but she later determined that these messages were just “window-dressing” and that people would undermine one another as they looked out for their self-interests. She eventually concluded that “no one cared” about unethical and illegal behavior in support of the company’s stock price.

Do you see danger signs in the judgment of AutoAdmit’s founders? The small company operates a message board Web site targeting college and law school students. Some students have complained that participants on the site’s law school message board have posted false and insulting messages about them that have humiliated them and may have interfered with their ability to find summer internships. Many employers use Internet searches as part of their background checks, and sites such as AutoAdmit might surface in search results. AutoAdmit founder Jarret Cohen told the Washington Post that he is reluctant to interfere with postings: “I want [the message board] to be a place where people can express themselves freely.” He and his partner, Anthony Ciolli, define the matter in terms of free speech, insisting that “one finds overall a much deeper and much more mature level of insight in a community where the ugliest depths of human opinion are confronted, rather than ignored.” Ciolli claims that only Cohen has the authority to remove offensive postings, and Cohen refuses to “selectively remove” comments.

The site also does not keep information that would identify participants, using only screen names, because “people would not have as much fun” if employers could identify them. Ciolli and Cohen have so far avoided any accusation that their message boards are violating the law; AutoAdmit isn’t liable for the content of messages written by visitors to the site. But what do you think about the organization’s ethical climate? Should it uphold values other than freedom of expression? What recourse do people have when anonymous posters can say anything they like?

corporate ethical standards  People often give in to what they perceive to be the pressures or preferences of powerful others. In the workplace, that means managers influence their employees for good or for ill. As we’ll see in the discussions of leadership and motivation later in the text, managers formally and informally shape employees’ behavior with money, approval, good job assignments, a positive work environment, and in many other ways. That means managers are a powerful force for creating an ethical culture.
To create a culture that encourages ethical behavior, managers must be more than ethical people. They also should lead others to behave ethically. 49 At General Electric, chief executive Jeffrey Immelt demonstrates his concern for ethical leadership by beginning and ending each annual meeting with a statement of the company’s integrity principles, emphasizing that “GE’s business success is built on our reputation with all stakeholders for lawful and ethical behavior.” These words are backed up with a reward system in which managers are evaluated for how well they meet ethics-related standards such as the use of audits, minimal customer complaints and lawsuits, avoidance of compliance actions by government regulators, and high ratings on employee surveys. 46

It’s been said that your reputation is your most precious asset. Here’s a suggestion: set a goal for yourself to be seen by others as both a “moral person” and also as a “moral manager,” someone who influences others to behave ethically. When you are both personally moral and a moral manager, you will truly be an ethical leader. 42 You can have strong personal character, but if you pay more attention to other things, and ethics is “managed” by “benign neglect,” you won’t have a reputation as an ethical leader.

IBM uses a guideline for business conduct that asks employees to determine whether under the full glare of examination by associates, friends, and family, they would remain comfortable with their decisions. One suggestion is to imagine how you would feel if you saw your decision and its consequences on the front page of the newspaper. 43 This “light of day” or “sunshine” ethical framework can be powerful.

Such fear of exposure compels people more strongly in some cultures than in others. In Asia, anxiety about losing face often makes executives resign immediately if they are caught in ethical transgressions or if their companies are embarrassed by revelations in the press. By contrast, in the United States, exposed executives might respond with indignation, intransigence, pleading the Fifth Amendment, stonewalling, an everyone-else-does-it self-defense, or by not admitting wrongdoing and giving no sign that resignation ever crossed their minds. Partly because of legal tradition, the attitude often is: never explain, never apologize, don’t admit the mistake, do not resign, even if the entire world knows exactly what happened. 44

**ethics codes** The Sarbanes-Oxley Act, described earlier, requires that public companies periodically disclose whether they have adopted a code of ethics for senior financial officers—and if not, why not. Often, the statements are just for show, but when implemented well they can change a company’s ethical climate for the better and truly encourage ethical behavior. Executives say they pay most attention to their company’s code of ethics when they feel that stakeholders (customers, investors, lenders, and suppliers) try to influence them to do so, and their reasons for paying attention to the code are that doing so will help create a strong ethical culture and promote a positive image. 45

Ethics codes must be carefully written and tailored to individual companies’ philosophies. Aetna Life & Casualty believes that tending to the broader needs of society is essential to fulfilling its economic role. Johnson & Johnson has one of the most famous ethics codes; it is featured in Table 3.2. J&J consistently receives high rankings for community and social responsibility in *Fortune’s* annual survey of corporate reputations.

Most ethics codes address subjects such as employee conduct, community and environment, shareholders, customers, suppliers and contractors, political activity, and technology. Often the codes are drawn up by the organizations’ legal departments and begin with research into other companies’ codes. The Ethics Resource Center in Washington assists companies interested in establishing a corporate code of ethics. 46

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**ETHICAL LEADER** One who is both a moral person and a moral manager influencing others to behave ethically.

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**Imagine a manager of a used-car dealership working hard to personify ethical business practices, for and with his customers and his employees.**

**This would create a powerful competitive advantage compared with the industry’s reputation (or at least the common stereotype) for shady practices.**
To make an ethics code effective, apply the following principles:

- Involve those who have to live with the code in writing it.
- Focus on real-life situations that employees can relate to.
- Keep it short and simple, so it is easy to understand and remember.
- Write about values and shared beliefs that are important and that people can really believe in.
- Set the tone at the top, having executives talk about and live up to the statement. 47

### Table 3.2 Johnson & Johnson's Ethics Code

We believe our first responsibility is to the doctors, nurses, and patients, to mothers 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. 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: Reprinted with permission of Johnson & Johnson.

DID YOU KNOW?

Although many companies have a code of ethics, far fewer have a comprehensive ethics program that includes training, channels for reporting violations, evaluation of ethical conduct, and discipline for violations. 48

When reality differs from the statement—as when a motto says people are our most precious asset or a product is the finest in the world, but in fact people are treated poorly or product quality is weak—the statement becomes a joke to employees rather than a guiding light.

### Ethics programs

Corporate ethics programs commonly include formal ethics codes articulating the company’s expectations regarding ethics; ethics committees that develop policies, evaluate actions, and investigate violations; ethics communication systems giving employees a means of reporting problems or getting guidance; ethics officers or ombudspersons...
who investigate allegations and provide education; ethics training programs; and disciplinary processes for addressing unethical behavior.67

Ethics programs can range from compliance-based to integrity-based.68 Compliance-based ethics programs are designed by corporate counsel to prevent, detect, and punish legal violations. Compliance-based programs increase surveillance and controls on people and impose punishments on wrongdoers. Program elements include establishing and communicating legal standards and procedures, assigning high-level managers to oversee compliance, auditing and monitoring compliance, reporting criminal misconduct, punishing wrongdoers, and taking steps to prevent offenses in the future.

Such programs should reduce illegal behavior and help a company stay out of court. But they do not create a moral commitment to ethical conduct; they merely ensure moral mediocrity. As Richard Breeden, former chairman of the Securities and Exchange Commission, said, “It is not an adequate ethical standard to aspire to get through the day without being indicted.”69

Yahoo! is struggling with an ethical dilemma as it makes decisions about how to operate in China. The Chinese government arrested Wang Xiaoning for “inciting subversion” in his pro-democracy e-journal and sentenced him to 10 years in prison. According to the case filed against Yahoo! in the United States, the Chinese subsidiary of Yahoo! that Wang used provided the information that enabled officials to track him down. How can an Internet company that values free expression justify support for a repressive government? Yahoo!’s Jim Cullinan points out that the company has to obey the laws of the countries where it operates but adds that the company has been trying to develop operating principles that will help its people make ethical decisions in countries where governments have different values.69

Integrity-based ethics programs go beyond the mere avoidance of illegality; they are concerned with the law but also with instilling in people a personal responsibility for ethical behavior. With such a program, companies and people govern themselves through a set of guiding principles that they embrace.

For example, the Americans with Disabilities Act (ADA) requires companies to change the physical work environment so it will allow people with disabilities to function on the job. Mere compliance would involve making the changes necessary to avoid legal problems. Integrity-based programs would go further by training people to understand and perhaps change attitudes toward people with disabilities and sending clear signals that people with disabilities also have valued abilities. This effort goes far beyond taking action to stay out of trouble with the law.

When top management has a personal commitment to responsible ethical behavior, programs tend to be better integrated into operations, thinking, and behavior. For example, at a meeting of about 25 middle managers at a major financial services firm, every one of them told the company’s general counsel that they had never seen or heard of the company’s ethics policy document.70 The policies existed but were not a part of the everyday thinking of managers. In contrast, a health care products company bases one-third of managers’ annual pay raises on how well they carry out the company’s ethical ideals. Their ethical behavior is assessed by superiors, peers, and subordinates—making ethics a thoroughly integrated aspect of the way the company and its people do business.

Companies with strong integrity-based programs include NovaCare (a provider of rehabilitation services to hospitals and nursing homes) and Wetherill Associates (a supplier of electrical parts to the automotive market). These companies believe that their programs contribute to competitiveness, higher morale, and sustainable relationships with key stakeholders.71

L O 3 WHAT YOU NEED TO KNOW . . .

Can you outline a process for making ethical decisions?

You can learn to make ethical decisions

We’ve said it’s not easy to make ethical decisions. Such decisions are complex. For starters, you may face pressures that are difficult to resist. Also, it’s not always clear that a problem has ethical dimensions; they don’t hold up signs that say, “Hey, I’m an ethical issue, so think about me in moral terms!”72 Making ethical decisions takes three things:

1. Moral awareness—realizing the issue has ethical implications
2. Moral judgment—knowing what actions are morally defensible
3. Moral character—the strength and persistence to act in accordance with your ethics despite the challenges73

Moral awareness begins with considering whether a decision has ramifications that disadvantage employees, the environment, or other stakeholders. Then the challenge is to apply moral judgment.

The philosopher John Rawls created a thought experiment based on the “veil of ignorance.”74 Imagine you are making a decision about a policy that will benefit or disadvantage some groups more than others. For example, a policy might provide extra vacation time for all employees but eliminate flex time, which
Eventually, they had to concede that these responses did not really address the question of whether the retreat was an ethical use of company money at a time when the company—along with many of the taxpayers whose money was bailing out AIG—was undergoing an economic crisis.\textsuperscript{59} You must also consider legal requirements to ensure full compliance, and the economic outcomes of your options, including costs and potential profits. Figure 3.2 shows some of the costs associated with unethical behavior.\textsuperscript{60} Some are obvious: fines and penalties. Others, like administrative costs and corrective actions, are less obvious. Ultimately, the effects on customers, employees, and government reactions can be huge. Being fully aware of the potential costs can help prevent people from straying into unethical terrain.

![Figure 3.2](image-url)

\begin{figure}[!h]
\centering
\includegraphics[width=\textwidth]{figure31.png}
\caption{A Process for Ethical Decision Making}
\end{figure}

\begin{itemize}
\item Understand all moral standards
\item Define complete moral problem
\item Determine the economic outcomes
\item Consider the legal requirements
\item Evaluate the ethical duties
\item Propose convincing moral solution
\end{itemize}


allows parents of young children to balance their work and family responsibilities. Or you’re a university president considering raising tuition or cutting financial support for study abroad.

Now pretend that you belong to one of the affected groups, but you don’t know which one—for instance, those who can afford to study abroad or those who can’t, or a young parent or a young single person. You won’t find out until after the decision is made. How would you decide? Would you be willing to risk being in the disadvantaged group? Would your decision be different if you were in a group other than your own? Rawls maintained that only a person ignorant of his own identity can make a truly ethical decision. A decision maker can tactically apply the veil of ignorance to help minimize personal bias.

To resolve ethical problems, you can use the process illustrated in Figure 3.1. Understand the various moral standards (universalism, relativism, etc.), as described earlier in the chapter. Begin to follow a formal decision-making process. As we will discuss in more detail in Chapter 4, you identify and diagnose your problem, generate alternative solutions, and evaluate each alternative. Your evaluation should recognize the impacts of your alternatives: which people do they benefit and harm, which are able to exercise their rights, and whose rights are denied? You now know the full scope of the moral problem.

As you define the problem, it’s easy to find excuses for unethical behavior. People can rationalize unethical behavior by denying responsibility (“What can I do? They’re twisting my arm”), denying injury (“No one was badly hurt; it could have been worse”), denying the victim (“They deserved it”), social weighting (“Those people are worse than we are”), and appealing to higher loyalties (“It was for a higher purpose,” or “I’m too loyal to my boss to report it”).\textsuperscript{58} Only days after the U.S. government had posted $85 billion to keep insurance giant American International Group from collapsing, AIG sent executives on a luxurious retreat. When asked to justify this, executives initially replied with excuses: the $440,000 spent was far, far less than the amount of the government bailout, and the executives who participated in the retreat did not work in the AIG division where the company’s financial problems had originated.

Ethical climate is heating up! Former Enron treasurer Ben Glisan, Jr. pleaded guilty to conspiracy and became the first ex-Enron executive to go to prison. Former Enron executives Jeff Skilling and Ken Lay were later arrested for their participation in the high-profile scandal case that led to the passage of the Sarbanes-Oxley Act in 2002. This case is considered to be one of the biggest business scandals in U.S. history.
hard it can be to do the right thing. As you're growing up, you need to develop the skills to the fullest. People decide whether to blow the whistle based on their perceptions of the wrongfull act, their emotions (anger, resentment, fear), and a (usually informal) cost-benefit analysis. Courage plays a role in the moral awareness involved in identifying an action as unethical, the moral judgment to fully consider the repercussions, and the moral character to take the ethical action.

Evaluating your ethical duties requires looking for actions that meet the following criteria:

- You would be proud to see the action widely reported in newspapers.
- It would build a sense of community among those involved.
- It would generate the greatest social good.
- You would be willing to see others take the same action when you might be the victim.
- It doesn’t harm the “least among us.”
- It doesn’t interfere with the right of all others to develop their skills to the fullest.

As you can see, making ethical decisions is complex, but considering all these factors will help you develop the most convincing moral solution.

**Ethics requires courage**

Behaving ethically requires not just moral awareness and moral judgment but also moral character, including the courage to take actions consistent with your ethical decisions. Think about how hard it can be to do the right thing. As you're growing up, you have plenty of peer pressure to conform to others' behavior, and it's not cool to be a snitch. On the job, how hard would it be to walk away from lots of money in order to "stick to your ethics"? To tell colleagues or your boss that you believe they’ve crossed an ethical line? To disobey a boss's order? To go over your boss's head to someone in senior management with your suspicions about accounting practices? To go outside the company to alert others if someone is being hurt and management refuses to correct the problem?

PepsiCo managers faced a difficult choice when an executive secretary from Coca-Cola Company's headquarters contacted them to offer confidential documents and product samples for a price. Rather than seek an unethical (and illegal) advantage, Pepsi’s managers notified Coca-Cola. There, management fired the secretary and contacted the FBI. Eventually, the secretary and two acquaintances were convicted of conspiring to steal trade secrets. PepsiCo still doesn't have the secret recipe for Coke, but it did maintain its reputation as a competitor with integrity. Choosing integrity over short-term business gain took courage.

Many people lack the courage—or believe their company’s management does. In a recent survey of employed adults, only about half of those who said they had witnessed unethical behavior at work said they would be likely to report it. A survey by the Society for Human Resource Management and Ethics Resource Center investigated the reasons behind this kind of reluctance. In that survey, employees who said they would not report the misdeeds they saw gave three main reasons for remaining silent: a belief that the company would not take corrective action, fear that management would retaliate against them for speaking up, and doubt that their report would be kept confidential.

Behaving ethically in a strong ethical climate is complicated enough, but even more courage is necessary when you decide that the only ethical course of action is whistleblowing—telling others, inside or outside the organization, of wrongdoing. The road for whistleblowers is rocky. Many, perhaps most, whistleblowers suffer consequences such as being ostracized, treated rudely, or given undesirable assignments. At a Canadian manufacturing company, an employee reported a manager who had arranged with suppliers to inflate their invoices; the manager took the extra cash, costing the company more than $100,000. When the other employees found out what had happened, instead of blaming the manager, they began to distrust the whistleblower. Eventually, she quit.

People decide whether to blow the whistle based on their perceptions of the wrongful act, their emotions (anger, resentment, fear), and a (usually informal) cost-benefit analysis. Courage plays a role in the moral awareness involved in identifying an action as unethical, the moral judgment to fully consider the repercussions, and the moral character to take the ethical action.

From an organization’s point of view, whistleblowing is either an asset or a threat, depending on the situation and management’s perspective. In the example of the manager...
cheating the Canadian manufacturer, it was clearly to the company’s advantage to know about the misdeeds so that management could stop the losses. But whistleblowing is a far different and more troubling matter when employees take their complaints to government agencies, report them to the media, or post them on blogs. When problems are resolved in public, the whistleblower is more often seen as acting against the company’s interests.

For this reason, and in response to the revised sentencing guidelines under the Sarbanes-Oxley Act described earlier, some organizations set up channels for employees to report ethics problems so the organization can respond without the matter becoming a scandal. Ideally, the reporting method should keep the whistleblower’s identity secret, management should investigate and respond quickly, and there should be no retaliation against whistleblowers who use proper channels. At Marvin Windows and Doors, which has thousands of employees working in a dozen facilities in the United States and Honduras, workers can go online to submit anonymous tips and suggestions in English or Spanish. The company’s general counsel says

According to a study by the Association of Certified Fraud Examiners, companies that uncovered fraud most often learned about it from a coworker’s tip, rather than from a formal audit.  

Social responsibilities can be categorized more specifically, as shown in Figure 3.3. The economic responsibilities of business are to produce goods and services that society wants at a price that perpetuates the business and satisfies its obligations to investors. For Smithfield Foods, the largest pork producer in the United States, this means selling bacon, ham, and other products to customers at prices that maximize Smithfield’s profits and keep the company growing over the long term. Economic responsibility may also extend to offering certain products to needy consumers at a reduced price. Legal responsibilities are to obey local, state, federal, and relevant international laws. Laws affecting Smithfield cover a wide range of requirements, from filing tax returns to meeting worker safety standards. Ethical responsibilities include meeting other societal expectations, not written as law. Smithfield took on this level of responsibility when it responded to requests by major customers, including McDonald’s and Walmart, that it discontinue the practice of using gestation crates to house its sows. The customers were reacting to pressure from animal rights advocates who consider it cruel for sows to live in the two-foot by seven-foot crates during their entire gestation period, which means they cannot walk, turn around, or stretch their legs for months at a time. The practice had been to move
Beyond the bottom line—a transcendent education. A real education, he says, teaches students to leave a legacy that extends beyond self-interest and profitability. A real education at the University of Chicago, believes that a 21st-century education must help students think about the present as well as to future generations—and feel them, to gain wisdom, to gain wisdom, to gain wisdom.

Finally, philanthropic responsibilities are additional behaviors and activities that society finds desirable and that the values of the business support. Examples include supporting community projects and making charitable contributions. Philanthropic activities can be more than mere altruism; managed properly, “strategic philanthropy” can become not an oxymoron but a way to build goodwill in a variety of stakeholders and even add to shareholder wealth.

Robert Giacalone, who teaches business ethics at Temple University, believes that a 21st-century education must help students think beyond self-interest and profitability. A real education, he says, teaches students to leave a legacy that extends beyond the bottom line—a transcendent education. A transcendent education has five higher goals that balance self-interest with responsibility to others:

1. Empathy—feeling your decisions as potential victims might feel them, to gain wisdom
2. Generativity—learning how to give as well as take, to others in the present as well as to future generations
3. Mutuality—viewing success not merely as personal gain, but a common victory
4. Civil aspiration—thinking not just in terms of “don’ts” (lie, cheat, steal, kill), but also in terms of positive contributions
5. Intolerance of ineffective humanity—speaking out against unethical actions

Do businesses really have a social responsibility?

Two basic and contrasting views describe principles that should guide managerial responsibility. The first holds that managers act as agents for shareholders and, as such, are obligated to maximize the present value of the firm. This tenet of capitalism is widely associated with the early writings of Adam Smith in The Wealth of Nations, and more recently with Milton Friedman, the Nobel Prize–winning economist of the University of Chicago. With his now-famous dictum “The social responsibility of business is to increase profits,” Friedman contended that organizations may help improve the quality of life as long as such actions are directed at increasing profits.

Some considered Friedman to be “the enemy of business ethics,” but his position was ethical: he believed it is unethical for unelected business leaders to decide what is best for society, and unethical for them to spend shareholders’ money on projects unconnected to key business interests. In addition, the context of Friedman’s famous statement includes the qualifier that business should increase its profits while conforming to society’s laws and ethical customs.

The alternative view is that managers should be motivated by principled moral reasoning. Followers of Friedman and The Wealth of Nations might sneer at such soft-headed propaganda. But Adam Smith wrote about a world different from the one we are in now, driven in the 18th century by the self-interest of small owner-operated farms and craft shops trying to generate a living income for themselves and their families. This self-interest was quite different from that of top executives of modern corporations. It is noteworthy that Adam Smith also wrote A Theory of Moral Sentiments, in which he argued that “sympathy,” defined as a proper regard for others, is the basis of a civilized society.

Advocates of corporate social responsibility argue that, as members of society, organizations have a wider range of responsibilities beyond profitability. As members of society, organizations should actively and responsibly participate in the
community and in the larger environment. From this perspective, many people criticized insurance companies after Hurricanes Katrina and Rita devastated homes and businesses along the Gulf Coast. From a social responsibility perspective, it was wrong for companies to watch out for their bottom line and avoid paying claims where they could make a case that the damage wasn’t covered; the insurers should have been more concerned about their devastated customers. Or consider how companies have responded to public criticism that products manufactured in low-wage countries are produced in “sweatshops,” where employees work in conditions widely viewed as unacceptable in developed nations such as the United States. Do U.S. companies have a social responsibility to insist on better working conditions? Walmart and other companies that buy products made in China have written codes of conduct and conducted onsite audits. Unfortunately, some enterprising Chinese consultants have set up services that help factories hide violations instead of correcting them. Still, as demand for Chinese-made products and pressure from multinational corporations have both intensified, observers say pay and working conditions in China have generally improved.79

**You can do good and do well**

Profit maximization and corporate social responsibility used to be regarded as leading to opposing policies. But in today’s business climate, which emphasizes both doing good and doing well, the two views can converge.80 The Coca-Cola Company has set up about 70 charitable projects to provide clean water in 40 countries. These projects are helping some of the 1.2 billion people without access to safe drinking water. The company is building structures to “harvest” rainwater in India, expanding the municipal water supply in Mali, and delivering water purification systems and storage urns to Kenya. These projects are aimed at burnishing the company’s image and targeting complaints that the company is using too much of the world’s water supply to manufacture its beverages. From a practical perspective, Coca-Cola’s strategic planners have identified water shortages as a strategic risk; from a values perspective, water is, in the words of executive Neville Isdell, “at the very core of our ethos,” so “responsible use of that resource is very important to us.”81

Earlier attention to corporate social responsibility focused on alleged wrongdoing and how to control it. More recently, attention has also been centered on the possible competitive advantage of socially responsible actions. DuPont has been incorporating care for the environment into its business in two ways it hopes will put it ahead of the competition. First, the company has been reducing its pollution, including a 72 percent cut in greenhouse gas emissions since 1990. It hopes these efforts will give it an advantage in a future where the government regulates emissions, requiring competitors to play catch-up. In addition, reducing emissions goes hand in hand with reducing waste and unnecessary use of energy, saving the company money and directly benefiting the bottom line. Second, DuPont has been developing products that are sustainable, meaning they don’t use up the earth’s resources. Examples include corn-based fabrics and new applications of its Tyvek material to make buildings more energy-efficient. DuPont expects these innovations to give the company profitable access to the growing market for environmentally friendly products.82

The real relationship between corporate social performance and corporate financial performance is highly complex; socially responsible organizations do not necessarily become more or less successful in financial terms.83 Some advantages are clear, however. For example, socially responsible actions can have long-term benefits. Companies can avoid unnecessary and costly regulation if they are socially responsible. Honesty and fairness may pay great dividends to the conscience, to the personal reputation, and to the public image of the company as well as in the market response.84 In addition, society’s problems can offer business opportunities, and profits can be made from systematic and vigorous efforts to solve these problems. Firms can perform a cost-benefit analysis to identify actions that will...
maximize profits while satisfying the demand for corporate social responsibility from multiple stakeholders. In other words, managers can treat corporate social responsibility as they would treat all investment decisions. This has been the case as firms attempt to reconcile their business practices with their effect on the natural environment.

When William K. Reilly was planning a private takeover of the Texas utility TXU Corp, he teamed up with an unlikely ally—the not-for-profit organization Environmental Defense. By doing so, Reilly got the company he wanted, and Environmental Defense received important concessions from Reilly: to drop eight of the eleven proposed new power plants and to campaign for mandatory national emission controls. Why did this alliance work? “We all swim in the same culture—and the culture is going green,” says Reilly.

As the tide of public opinion has begun to turn toward the preservation of the planet, companies must respect the wishes of their customers. “Companies have to be seen as responsible,” warns Karen Van Bergen, vice president of McDonald’s in Europe.

For a clearer link between social and business goals, companies can benefit from integrating social responsibility with corporate strategy—and society can benefit as well. Applying the principles of strategic planning (described in Chapter 4), organizations can identify the specific areas in which they can capitalize on their strengths to neutralize threats and benefit from opportunities that result from serving the society of which they are a part. For example, suppose a company is interested in exercising social responsibility for the environment by reducing its carbon emissions. The extent to which this choice is strategic varies from one company to another. Reducing carbon emissions would be a good deed for Bank of America but not directly related to its strategy, except to the extent it might (or might not) lower its operating costs. For UPS, reducing carbon emissions would directly affect its day-to-day activities but still might not give the company a competitive advantage. For Toyota, reducing carbon emissions—say, by leading in the development and marketing of hybrid technology as well as by operating more efficiently—can be a significant part of its competitive advantage.

Should pharmaceutical companies be allowed to advertise prescription medicines directly to the consumer? When patients request a product, doctors are more likely to prescribe it—even if the patients haven’t reported the corresponding symptoms.

“The essential test that should guide corporate social responsibility is not whether a cause is worthy but whether it presents an opportunity to create shared value—that is, a meaningful benefit for society that is also valuable to the business.”

—Michael E. Porter and Mark R. Kramer

What are the reasons for businesses’ growing interest in the natural environment?

THE NATURAL ENVIRONMENT

Most large corporations developed in an era of abundant raw materials, cheap energy, and unconstrained waste disposal. But many of the technologies developed during that era are contributing to the destruction of ecosystems. Industrial-age systems follow a linear flow of extract, produce, sell, use, and discard—what some call a “take-make-waste” approach. But perhaps no time in history has offered greater possibilities for a change in business thinking than the 21st century.

Business used to look at environmental issues as a no-win situation: either you help the environment and hurt your business, or else you help your business at the cost to the environment. But now a shift is taking place as companies deliberately
incorporate environmental values into competitive strategies and into the design and manufacturing of products. Why? In addition to philosophical reasons, companies “go green” to satisfy consumer demand, react to a competitor’s actions, meet requests from customers or suppliers, comply with guidelines, and create a competitive advantage.

General Electric CEO Jeff Immelt used to view environmental rules as a burden and a cost. Now he sees environmentally friendly technologies as one of the global economy’s most significant business opportunities. Under a business initiative called Ecomagination, GE is looking for business opportunities from solving environmental problems. Ecomagination solutions already include wind turbines, materials for solar energy cells, and energy-efficient home appliances. Over a five-year period, GE’s revenues from renewable-energy products have risen from $5 million to $7 billion.

Economic activity has environmental consequences

We live in a risk society. That is, the creation and distribution of wealth generate by-products that can cause injury, loss, or danger to people and the environment. The fundamental sources of risk in modern society are the excessive production of hazards and ecologically unsustainable consumption of natural resources. Risk has proliferated through population explosion, industrial pollution, and environmental degradation.

Industrial pollution risks include air pollution, smog, global warming, ozone depletion, acid rain, toxic waste sites, nuclear hazards, obsolete weapons arsenals, industrial accidents, and hazardous products. More than 30,000 uncontrolled toxic waste sites have been documented in the United States alone, and the number is increasing by perhaps 2,500 per year. The situation is far worse in other parts of the world. The pattern, for toxic waste and many other risks, is one of accumulating risks and inadequate remedies.

The institutions that create environmental and technological risk (corporations and government agencies) also are responsible for controlling and managing the risks. Lockheed Martin Corporation had to contain the spread of a chemical used in industrial degreasers when it leaked from a broken sump pump at an old facility in Florida. Even though Lockheed had sold the facility to another company, it had owned the property when the contamination was first discovered, so it was responsible. Lockheed’s efforts included sealing off an old contaminated well at a cattle operation and providing a new well with clean water for the cattle.

Sometimes the risks can be overwhelming. Regulators at the Environmental Protection Agency (EPA) determined that Asarco’s metal-processing facility in Globeville, Colorado, had been polluting the community with lead and arsenic. The EPA declared 4.5 square miles a Superfund site, meaning it was a priority for a major cleanup, and Asarco was supposed to pay for the effort. Asarco, which faced more than $1 billion in cleanup costs for Globeville and more than 90 other contaminated sites in the United States, instead filed for bankruptcy and planned to shut down and sell the Globeville facility.

**Ecomcentric management**

Ecomcentric management has as its goal the creation of sustainable economic development and improvement of quality of life worldwide for all organizational stakeholders. Sustainable growth is economic growth and development that meets the organization’s present needs without harming the ability of future generations to meet their needs. Sustainability is fully compatible with the natural ecosystems that generate and preserve life.

Some believe that the concept of sustainable growth can be applied in several ways:

- As a framework for organizations to use in communicating to all stakeholders
- As a planning and strategy guide
- As a tool for evaluating and improving the ability to compete

The principle can begin at the highest organizational levels and be made explicit in performance appraisals and reward systems.

With two-thirds of the world’s population expected to experience water scarcity by 2025 and shortages forecast for 36 U.S. states by 2013, businesses are becoming concerned about this essential natural resource. If you haven’t experienced a water shortage, water usage might not seem to be an obvious area of concern, but it should be. For example, Levi Strauss & Company determined that making a pair of jeans requires about 500 gallons of water for growing, dyeing, and processing cotton.

Brewer SABMiller is a leader in making water conservation part of its strategy. Using an online computer application, the company submitted the GPS coordinates of factory and farm locations and learned where its operations are located in areas of water scarcity. About 30 SABMiller sites were in vulnerable areas. Executives decided to target one of those areas and develop a process they could apply elsewhere. They selected South Africa, whose breweries produce about one-sixth of the company’s beer. Not only is South Africa facing water shortages, but its government has yet
Houweling Nurseries was founded in 1974 by Cornelius Houweling, a Dutch immigrant to the United States and professional horticulturist. Today, the business includes farms in British Columbia and Oxnard, California.

In 2009, the company expanded its Oxnard site with a $53 million, 40-acre greenhouse facility that uses sustainable practices to grow tomatoes year-round. Located in the center of California’s $36 billion farming economy, the greenhouses stand as a triumph of 21st-century agricultural science. They are believed to be the world’s first energy-neutral greenhouses.

In the past, most companies were oblivious to their negative environmental impact. More recently, many began striving for low impact. Now, some strive for positive impact, eager to sell solutions to the world’s problems. IBM has three decades of experience in lowering its environmental impact through efforts such as reducing waste in packaging and measuring carbon emissions. It has begun to use that experience as a strength, a basis for expertise it can sell to other organizations.

Some organizations set environmental agendas

Increasingly, firms are paying attention to the total environmental impact throughout the life cycle of their products. Life-cycle analysis (LCA) is a process of analyzing all inputs and outputs, through the entire “cradle-to-grave” life of a product, to determine the total environmental impact of its production and use. LCA quantifies the total use of resources and the releases into the air, water, and land.

LCA considers the extraction of raw materials, product packaging, transportation, and disposal. Consider packaging alone. Goods make the journey from manufacturer to wholesaler to retailer to customer; then they are recycled back to the manufacturer. They may be packaged and repackaged several times, from bulk transport, to large crates, to cardboard boxes, to individual consumer sizes. Repackaging not only creates waste but also costs time. The design of initial packaging in sizes and formats adaptable to the final customer can minimize the need for repackaging, cut waste, and realize financial benefits.

Profitability need not suffer and may be increased by eco-centric philosophies and practices. Some, but not all, research has shown a positive relationship between corporate environmental performance and profitability.

A New Meaning for “Greenhouses”

Since early Roman days, people have used greenhouses to grow plants—particularly to enjoy fruits and vegetables out of season. But not until the 1990s did greenhouses begin to gain popularity in the United States. The timing couldn’t be better. The amount of farmable land per capita in the world continues to shrink, and over the next 50 years world population is expected to increase by 3 billion. At the same time, economists estimate, the demand for farm products will double.

As more regions suffer from drought from climate change and as power shortfalls increase, the notion of using glass houses to grow fruits and vegetables has become increasingly attractive. A leader in greenhouse-grown produce, Houweling Nurseries was founded in 1974 by Cornelius Houweling, a Dutch immigrant to the United States and professional horticulturist. Today, the business includes farms in British Columbia and Oxnard, California.

In 2009, the company expanded its Oxnard site with a $53 million, 40-acre greenhouse facility that uses sustainable practices to grow tomatoes year-round. Located in the center of California’s $36 billion farming economy, the greenhouses stand as a triumph of 21st-century agricultural science. They are believed to be the world’s first energy-neutral greenhouses.

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along with its computing power and other consulting services. Thus, one application might be to help clients measure and forecast the carbon emissions of their entire supply chain. By running calculations on its supercomputers, IBM consultants could help the clients find ways to lower their energy use.104

You don’t have to be a manufacturer or a utility to jump on the green bandwagon. Web search giant Google is applying a three-pronged strategy aimed at reducing its “carbon footprint,” that is, its output of carbon dioxide and other greenhouse gases. At Google, most greenhouse gas emissions are related to electricity consumption by its buildings and computers. So Google is first seeking ways to make buildings and computers more energy-efficient, such as by using high-efficiency lighting and installing power management software in its computers. Second, the company is developing ways to get more of its power from renewable sources, such as the solar power system at its facility in Mountain View, California. Finally, recognizing that its other efforts cannot yet eliminate Google’s release of greenhouse gases, the company is purchasing “offsets”—funding projects that reduce greenhouse gas emissions elsewhere.105

Webs of companies with a common ecological vision can combine their efforts into high-leverage, impactful action.106 In Kalundborg, Denmark, such a collaborative alliance exists among an electric power generating plant, an oil refiner, a biotech production plant, a plasterboard factory, cement producers, heating utilities, a sulfuric acid producer, and local agriculture and horticulture. Chemicals, energy (for heating and cooling), water, and organic materials flow among companies. Resources are conserved, “waste” materials generate revenues, and water, air, and ground pollution all are reduced.

Companies not only have the ability to solve environmental problems; they are coming to see and acquire the motivation as well. Some now believe that solving environmental problems is one of the biggest opportunities in the history of commerce.107

Discussion Questions

- How does Houweling Nurseries serve as a forward-looking example for other agricultural businesses?
- Emerging environmental issues have created significant challenges for farming. Although costly, what could the construction of more greenhouses like the Houwelings mean for today’s farmers? For the agricultural industry as a whole?