Ethics and Social Responsibility

CHAPTER 4

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Chapter Outline

After reading this chapter, you will be able to:

- Define business ethics and explain its importance to management.
- Detect some of the ethical issues that may arise in management.
- Specify how personal moral philosophies, organizational relationships, and opportunity influence decision making in management.
- Examine how managers can try to foster ethical behavior.
- Define social responsibility and discuss its relevance to management.
- Debate an organization's social responsibilities to owners, investors, employees, and consumers, as well as to the environment and the community.
- Determine the ethical issues confronting a hypothetical business.

INSIDE MANAGEMENT

Eaton Drives to Maintain a Successful Ethics Program

Eaton Corporation is a power management company based in Cleveland, Ohio. The company produces over 900,000 different industrial components, employs 95,000 people globally, and generates over $19.7 billion in annual sales. These large-scale operations require Eaton to have a strong ethics and compliance program. It has been recognized as one of *Ethisphere Magazine*'s World's Most Ethical Companies for eight consecutive years. Eaton prides itself on its values-based culture and believes that high performance is only achieved by "doing business right." Eaton is also committed to social responsibility, which involves maximizing its positive impact on society while minimizing its negative impact.

At the heart of Eaton's values-based culture is a detailed code of ethics. Eaton's code of ethics contains standards meant to reduce the opportunity for misconduct by prescribing acceptable and unacceptable behaviors within the organization. Not only must all Eaton employees comply with the code of ethics, but they have a responsibility to report any suspected violation of the code—also known as whistle-blowing. Eaton's code of ethics covers 12 areas, including obeying the law, delivering quality, and respecting diversity and fair employment practices.

To ensure that employees follow and value the code of ethics, Eaton supports its ethical culture at all levels of the company. This support is an important organizational factor in the ethical decision-making process because employees are likely to follow the example of managers who exemplify ethical behavior. Eaton's Global Ethics Office is charged with the daily administration of the company's code of ethics. The purpose of the Global Ethics Office is "to demonstrate that Eaton's ethical standards are both current and at the highest level and that our Code of Ethics is fully known and followed wherever we do business." The Global Ethics Office provides employees with the information, tools, guidance, training, and support they need to comply with the code of ethics.

Ethics programs are useless if they are not communicated effectively to employees. For this reason, all new employees, including those from acquired businesses, go through ethics training immediately after they join Eaton. The company also has tools to help employees to monitor their own behavior before an ethical issue develops. For example, Eaton employees can record entertainment and gifts online, which fosters transparency.

At Eaton, employees are encouraged to report "any ethical concern or any potential or actual legal or financial violation." Employees can get information or report misconduct to the Global Ethics Office via regular mail, email, or Eaton's 24-hour Ethics and Financial Integrity Help line. Non-English-speaking employees can write emails and letters to the Global Ethics Office in their native language, and Eaton will translate them. The company wants to ensure that violations do not go unchecked, domestically or internationally.

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Eaton's Golf Pride brand is the leading provider in golf club grips.

Concern for the environment is an important part of social responsibility. In 2016 Eaton modified its vision statement to focus on sustainability: "To improve the quality of life and the environment through the use of power management technologies and services." The company believes that sustainability is not only an ethical issue but also a way to make its business thrive. Eaton is undertaking three initiatives to increase its environmental impact: selling sustainable products, decreasing its environmental footprint, and reporting its progress toward its environmental goals.

Eaton incorporates sustainability into its consumer relations by supplying products that help customers reduce their energy consumption, such as monitoring software, power management systems, and high-efficiency transformers. These products help customers increase the energy efficiency of buildings, vehicles, and machinery; conserve natural resources; shrink their carbon footprints; and reduce their environmental impact.

Overall, Eaton Corporation has a company-wide commitment to ethical business. Eaton's code of ethics provides a stable foundation for the company's business decisions. Both the firm and its employees know what is expected from them and how to make difficult ethical decisions. The Global Ethics Office acts as a valuable guide when following the code of ethics, making legal and ethical behavior accessible to everyone connected with Eaton. Eaton backs up its business philosophy with ethical actions. It develops and sells products that help customers to reduce their environmental impact, and it strives to become a more sustainable business itself. Eaton's ethical culture is the key to its reputation and global success.[1]

Introduction

The Eaton focus on ethics programs and an ethical culture drives its approach to integrity in all management activities. Without acceptable conduct, a firm will lose the support of stakeholders and even face sanctions from regulatory authorities. This chapter addresses ethics and social responsibility, two of the most important areas in establishing management trust and respect. During the first few decades of the twenty-first century, scandals at corporations such as Volkswagen and Wells Fargo, as well as sports teams, were associated with ethics and social responsibility failures.

In the first half of this chapter we explore the role of ethics in management decision making. First, we define business ethics and explain why it is important to understand the role of ethics in management. Next, we explore a number of ethics issues to help you recognize such issues when they arise, and we discuss the process through which individuals make ethical decisions. Finally, we look at steps managers can take to improve ethical behavior in their organizations. The second half of the chapter focuses on social responsibility. First, we describe the nature of social responsibility and its evolution. Next, we explore some important social responsibility issues and the ways companies have responded to them. Finally, we discuss how organizations may manage their operations to fulfill their social responsibilities, including conducting social audits.

What Is Business Ethics?

Business ethics refers to principles, values, and codes of conduct that define acceptable behavior in business. Stakeholders, including employees, customers, government regulators, special interest groups, communities, competitors, and an individual's personal morals and values determine what acceptable behavior in business is. For example, we generally feel that ethical managers strive for success while being fair, just, transparent, and trustworthy.

business ethics: Principles, values, and codes of conduct that define acceptable behavior in business.

This chapter does not prescribe a particular philosophy or process as the best or most ethical; it does not tell you how to judge the ethics of others. It will help you detect ethical issues and see how decisions are made within individual work groups as well as within the organization as a whole. Understanding how people make ethical decisions should help you improve your own ethical performance. Although we do not tell you what you ought to do, others—your superiors, coworkers, and family—will make judgments about the ethics of your actions and decisions. Learning how to recognize and resolve ethical issues is an important step in evaluating ethical decisions in management.

Why Is Ethics Important in Management?

In Chapter 1, we said that making decisions is an important aspect of management. Ethical considerations exist in nearly all management decisions. The most basic ethical concerns have been codified as laws and regulations that encourage conformity to society's values and attitudes. At a minimum, managers are expected to obey these laws and regulations. Most legal issues arise as incorrect ethical choices that society deems unacceptable. However, all actions deemed unethical by society are not necessarily illegal, and both legal and ethical concerns change over time.

You have only to pick up *The Wall Street Journal* or *USA Today* to see how truly difficult it is to deal with legal and ethical issues. Scandals at HSBC related to anti–money laundering laws resulted in $1.9 billion in fines, Volkswagen paid billions in fines in the United States for attempts to cheat on emissions requirements, and Wells Fargo opened millions of accounts without customer knowledge—all of these are ethical issues and attest to the difficulty in detecting and determining whether an action has violated a legal or ethical standard. Additionally, there is often a fine line between ethics and laws, and just because something is technically legal does not necessarily mean that it is ethical.

It is important to recognize that business ethics goes beyond legal issues; ethical decisions foster trust among individuals and in business relationships. Unethical decisions

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Business ethics is often referred to as maintaining and managing organizational integrity.

destroy trust and make the continuation of business difficult, if not impossible.[2] If you were to discover that a manager had misled you about company benefits when you were hired, for example, your trust and confidence in the company would probably diminish. If you learned that a colleague had lied to you about something, you would probably not trust or rely on that person in the future. From another perspective, mistakes may be unintended or events may alter a manager's intent or commitments. There may be miscommunication concerning promises in some cases. Therefore, business ethics involves many gray areas or borderline decisions about what is ethical or unethical. For example, there may be debate about what constitutes abusive behavior.

Well-publicized incidents of unethical activity strengthen the public's perception that ethical standards in business need to be raised. For example, the risky lending practices of companies that helped lead to the most recent financial crisis have prompted the U.S. government to establish widespread reform for the financial industry, including the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In another more generic example, a plant that closes in order to save costs may make sense from a business standpoint, but the workers will feel quite differently. Canadian workers at a Caterpillar factory faced this issue when the company decided to shut down a plant and relocate to an American city after a labor dispute resulted in strikes and lockouts.[3] Obviously, the workers will question the ethics of the plant closing decision and may even spark legal issues for the company. Often, questions that start as ethical conflicts turn into legal disputes when cooperative conflict resolution cannot be accomplished. On the other hand, companies sometimes take aggressive actions to enforce their own ethical standards. Such examples support the notion that most decisions can be judged right or wrong, ethical or unethical.

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Many companies believe that their ethical conduct contributes significantly to their overall profitability.

Although they are often not well publicized, there are many ethical firms. For example, Xerox, Whole Foods, Herman Miller, and Marriott get high marks for ethical conduct and social responsibility. *Ethisphere Magazine* has examined the profitability

of the World's Most Ethical companies in comparison to the S&P 500. The World's Most Ethical companies have outperformed the S&P each year.

There is a genuine human concern that employees sense and appreciate. Indeed, most organizations and managers do try to make ethical decisions; however, it is the unethical decisions that are publicized and result in public outcries for change.

Recognizing Ethical Issues in Management

Learning to recognize ethical issues is the most important step in understanding ethics in management. An **ethical issue** is an identifiable problem, situation, or opportunity that requires a person or organization to choose among several actions that may be evaluated as ethical or unethical. The "line" between an issue and an ethical issue is the point at which accepted rules no longer serve, and the decision maker is faced with the responsibility for weighing moral rules and making a choice. In management, the decision often requires weighing monetary profit or personal interests against what the individual, work group, or organization considers honest and fair.

ethical issue: An identifiable problem, situation, or opportunity that requires a person or organization to choose among several actions that may be evaluated as ethical or unethical.

A good way to judge the ethics of a decision is to look at the situation from several viewpoints: Should a manager pressure employees into lowering product quality in ways the customer cannot detect in order to reduce costs? Should an engineer agree to divulge her former employer's trade secrets to ensure that she gets a better job with a competitor? Should a personnel manager omit facts about an employee's poor safety record to help the employee find a new job? What if a manager fails to use renewable energy, even if it stands to increase long-term profits for the company? Such questions require the decision maker to calculate the ethics of his or her choice.

Many business issues may seem straightforward and easy to resolve, but in reality, a person often needs several years of experience in business to understand what is acceptable or ethical. Many acceptable behaviors in your private life may not be acceptable in business. For example, when does offering a gift—such as season basketball tickets—to a business associate become a bribe rather than just public relations? Obviously, there are no easy answers to such a question. But the size of the transaction, the history of personal relationships within the particular company, as well as many other factors may determine whether others will judge an action as right or wrong. If you give your basketball tickets to a friend with whom there is no business relationship, the ethical issue vanishes.

Managers directly influence the ethical issues within an organization because they guide employees and direct the organization's activities. They should be especially concerned about ethical issues related to their organization's impact on the environment, the firm's ethical standards, plant closings and layoffs, employee discipline and benefits, discrimination, health and safety, privacy, drug and alcohol abuse in the workplace, and the achievement of organizational objectives in an efficient and ethical manner.

Ethics is also related to the culture in which a business operates. In the United States, for example, it would be inappropriate for a businessperson to bring an elaborately wrapped gift to a prospective client on their first meeting: The gift could be viewed as a bribe. In Japan, however, it is considered impolite not to bring a gift. In Mexico, a small payment called *la mordida* (the "bite") may be considered necessary for doing business. Experience with the culture in which a business operates is critical to understanding what is ethical or unethical. Understandably, there is considerable debate over whose ethics should apply in international business. U.S. managers need to respect

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All businesses face ethical risks in their decision making.

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An example of a conflict of interest is accepting or paying a bribe.

other cultures, establish standards, and avoid violating U.S. or foreign laws when doing business globally.

To help you understand ethical issues that perplex managers today, we will explore some ethical issues that may affect management decisions. Obviously, it is not possible to discuss every issue that may arise, but a discussion of a few can help you recognize the ethical decisions and issues that managers have to deal with daily.

Ethical Issues in Management

As stated earlier, a decision becomes an ethical issue when accepted rules no longer apply and the decision maker must use his or her own moral principles and standards to decide what is right or wrong. Managers have an obligation to ensure that their ethical decisions are consistent with company values, codes of ethics, and policies—as well as community and legal standards. The following represent some examples of ethical issues from different management areas.

Organizational Relationships

Relationships with subordinates, coworkers, and superiors may result in ethical issues such as maintaining confidentiality in personal relationships; meeting obligations, responsibilities, and mutual agreements; and avoiding undue pressure that may force others to behave unethically. Today abusive and intimidating behavior is considered one of the most reported ethical concerns in the workplace by the Ethics Resource Center. Ethical issues arise when employees are asked to lie to customers and other employees about the quality of a product, as when a supermarket employee is told to tell customers that the seafood is fresh when, in fact, it was previously frozen. A manager may ask employees to do things that are in conflict with their personal ethics, or the organization may provide only vague or lax supervision on ethical issues, providing the opportunity for unethical behavior. Managers who offer no ethical direction to employees create many opportunities for manipulation, dishonesty, and conflicts of interest.

Operations and Communications

Many opportunities for unethical activity exist in the area of operations and communications. At first, it could be just an ethical issue, but when employees cover up and destroy

records, it may turn into an illegal activity. The now-defunct accounting firm Arthur Andersen faced this problem when it was accused of destroying documents related to its involvement with Enron. Many companies have gotten into ethical trouble by covering up safety defects or by not being honest about the true quality of products. As mentioned earlier, Volkswagen did this by covering up the emissions released from its diesel-engine vehicles. An ethical issue exists when a company is not truthful about important information related to product quality. A number of Chinese firms have been found guilty of safety, defects related to lead paint in toys, defective tires, and drywall as well as health issues associated with the production of milk and dog food.

Sexual harassment has emerged as a major ethical issue in the workplace and has become one of the top news stories. Some high-ranking executives have been accused of taking advantage of their positions of power to obtain sexual favors. Many women more recently have come forward with details of the alleged sexual abuse in the past. Although sexual harassment is more transparent today, it has also led to decisions by some firms to avoid placing women in positions with high risk. For example, the New England Patriots moved some women out of positions where they have private contact with players. Firms need to assess risk but continue to provide equal opportunity in the workplace.

Sexual harassment has also been alleged in the political and entertainment arenas. Some have levied complaints against the Department of Justice's handling of sexual harassment cases as well as many sealed cases regarding House members, senators, and staffers in Congress. The entertainment industry has many highly visible cases of actors, producers, and other members of the industry engaging in sexual misconduct.

Employee Relations

The area of human resources management is a minefield of ethical issues. The process of acquiring, developing, and compensating people to fill the organization's human resources needs generates many ethical issues. For example, testing procedures used in hiring personnel may violate an individual's rights. While it is not yet illegal, some states are cracking down on employers for forcing employees to give them access to employees' social media profiles. The disclosure of personnel records and personality tests represents an ethical issue when it violates workers' privacy. Performance appraisals are another ethical issue if appraisals are based on favoritism and political opportunism. Decisions regarding promotions, transfers, separations, and financial compensation that are not based on objective criteria will provide opportunities for conflicts. Many firms have been accused of discrimination in hiring and promotions. Firms such as Walmart, Home Depot, and Costco have all been accused in class-action lawsuits of gender discrimination in promotions and hiring.[4]

Ethical issues related to discrimination and prejudice affect business activities at many levels. Discrimination based on race, sex, age, or other identifiable characteristics is an ethical issue and can become a legal statistic—when managers or company policy fails to control or prevent discrimination. The clothing retailer Wet Seal found this out after a class-action lawsuit in Pennsylvania accused the company of denying African-American employees equal pay and promotion opportunities. The company paid $7.5 million to settle the lawsuit.[5]

Strategies that management uses to develop human relations programs can also create ethical concerns. Strategies for motivating employees, such as methods of reward and punishment, can lead to unethical behavior. For example, if managers reward employees for achieving results without concern for how those results were achieved, they may send the wrong message to employees about what activities are acceptable and even encourage unethical actions to achieve results. For example, Walmart executives in Mexico were alleged to have paid bribes to government officials. Companies must consider the long-term effects of punishment/reward systems before selecting a policy. For instance, top-performing salespersons are not punished as often as low-performing salespersons when found guilty of misconduct.

BUSINESS DILEMMA

You're the Manager . . . What Would You Do?

THE COMPANY: Bingo's Pizza
YOUR POSITION: Co-owner
THE PLACE: Dallas, Texas

Bingo's Pizza began delivering pizzas in 1969 when, with his sister, Jon McClanahan decided that customers would respond to having the pizza delivered for a small fee. Originally operating out of the Fort Worth area, Bingo's tested its delivery system and found that consumer response was overwhelming. Publicity for the company came quickly and easily as people were delighted and supportive of the delivery service. The company grew from one small store in Fort Worth to five, with an additional nine in the Dallas area, four in Waco, and four in Austin, with negotiations beginning for units in Houston.

The success of the delivery concept brought on competition from the major pizza manufacturers who tried their hand at delivery. Jon's sister and partner Stephanie was a computer whiz, having majored in computer science at Texas A&M University. Stephanie thought that if they developed an information database, they could become more efficient and gain significant insights into consumer buying behavior and consumption patterns. Jon felt their current system and software could use improvement and instituted a test of a new ordering system.

After successfully testing this system, Jon and Stephanie put the new order network in place in all of their restaurants. After three months of success, they wanted to gain some publicity for this new system, just as they had when they first instituted delivery service. After several days of attempting to write press releases, Stephanie had an idea. "I know we've only been running this system for a few months," she said. "But let's give an award to the family that eats the most Bingo's pizza. McDonald's gave their best customer in Lubbock a card good for free food and they received publicity across the country. We can use the giveaway as a springboard to talk about the computer system." Jon had not thought of that angle, and he liked the idea. He asked Stephanie to determine the "winner" and get back to him.

Source: Phovoir/Shutterstock

Bingo's Pizza deals with ethical issues in the workplace.

Stephanie found that the biggest consumer of Bingo's pizza worked outside Waco and had ordered a pizza every weekday for the past three months that the system had been in place. Stephanie put together a program to give him a nice prize—Bingo's gift certificates—and arranged for the newspaper to accompany her to make the award. You must decide how to proceed with this plan.

QUESTIONS

1. Critique Stephanie's plan.
2. What are the potential ethical issues associated with this plan?
3. How would you proceed?

Making Decisions about Ethical Issues

Recognizing specific ethical issues can be difficult in practice. Whether a decision maker recognizes an issue as an ethical one is often determined by characteristics of the issue itself. Table 4.1 provides some facts about organizational misconduct in the United States.

Managers tend to be more concerned about issues that affect those close to them, as well as issues that have immediate rather than long-term consequences. Thus, the perceived intensity of an ethical issue may vary substantially, with only a few issues receiving scrutiny and many issues receiving less attention.[6]

Table 4.2 lists some questions you may want to ask yourself and others when trying to determine whether an action is ethical. While open discussion of ethical issues does not eliminate ethical problems, it does promote both trust and learning in an organization.[7] When people feel that they cannot discuss what they are doing with their coworkers or superiors, an ethical issue may exist. Once a person has recognized an ethical issue and can openly discuss it with others, he or she has begun the ethical decision-making process.

TABLE 4.1 Organizational Misconduct in the United States

Misconduct Facts	Percentages
Observed misconduct	30%
Abusive behavior	22%
Lying to stakeholders	22%
Conflict of interest	19%
Pressure to compromise standards	22%
Report observed misconduct	76%
Experience retaliation for reporting	53%

Source: Ethics and Compliance Initiative, 2016 Global Business Ethics Survey™: Measuring Risk and Promoting Workplace Integrity (Arlington, VA: Ethics and Compliance Initiative, 2016), p. 43.

TABLE 4.2 Questions to Consider Whether an Action Is Ethical

- Does the conduct comply with your organization's code of ethics or policies?
- How do other people in the organization feel about the action? Would they approve of your doing it?
- Are there any industry trade groups that provide guidelines or codes of conduct that address this issue?
- Will your decision or action withstand open discussion with coworkers and managers and survive untarnished?
- How does the decision align with your personal beliefs and values?

The Ethical Decision-Making Process

It is difficult for some people to believe that an organization can exert a strong influence on ethical behavior. In our society, we want to believe that we, as individuals, control our own destiny. However, teams and work groups, not individuals, often make the ethical decisions within the organization. Most new employees in highly bureaucratic organizations have almost no input into how things will be done in terms of basic operating rules and procedures. Employees may be taught management tactics and the way to resolve problems. Although many personal ethics issues may seem straightforward and easy to resolve, most managers make ethical decisions within the context of their organizations. Employees often accept the recommendations of accountants, lawyers, and experienced managers if they are concerned about an ethical decision.

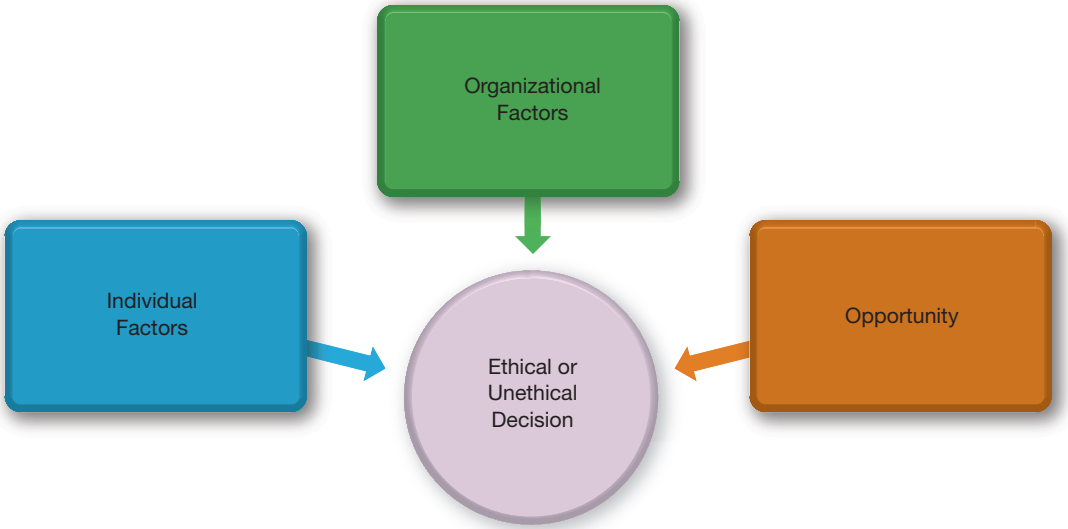
To better understand the significance of ethics in management decisions, it is helpful to examine the factors that influence how a person makes ethical decisions: an individual's personal values, organizational factors, and opportunity (Figure 4.1).

The Role of Individual Factors in Ethical Behavior

Individual values, also known as moral philosophies, are sets of principles that describe what a person believes are the right way to behave. People learn these principles by interacting with family members and social groups and in formal education. Individuals may be guided by different values, however. Each moral philosophy has its own concept of what is ethical and the proper rules for behavior. This, in turn, influences what a person

individual values: Also known as moral philosophies, are sets of principles that describe what a person believes are the right way to behave.

FIGURE 4.1
Factors Influencing Behavior



identifies as ethical and how strongly he or she feels about those issues. Moral philosophies can be broken into two categories: utilitarianism and deontology.

utilitarianism: A philosophy where believers seek the greatest satisfaction for the largest number of individuals.

Believers in **utilitarianism** seek the greatest satisfaction for the largest number of individuals. Utilitarians evaluate the ethics of an action or decision on the basis of its consequences for all affected persons. When confronted with an ethical issue, the utilitarian manager weighs the costs and benefits of the consequences of all possible alternatives, and then chooses the one that benefits the most people. Employees may bend the rules if most stakeholders will benefit. For example, a CEO of a struggling company might consider making misleading statements that the firm is doing well. The CEO might honestly believe that reassuring investors and attracting new ones will help the company rebound, allowing employees to keep their jobs. On the other hand, a truly utilitarian philosophy would also evaluate the impact this misrepresentation would have on investors. If the company does go out of business, investors could lose millions. In addition, the CEO should also consider what might happen if caught by regulatory authorities. In such a case, the company would not only likely founder but the CEO could face serious legal penalties. A utilitarian CEO would take all these possibilities into account and choose the solution that he or she believes would benefit the most stakeholders.

deontology: Focuses on human rights and values and on the intentions associated with a particular behavior.

In contrast, **deontology** focuses on human rights and values and on the intentions associated with a particular behavior. Deontologists judge an action by whether it infringes on individual rights or universal principles such as the Golden Rule, equality, or justice. In other words, utilitarians are more concerned with the end results, whereas deontologists are concerned with the means to get those results. In business, deontology is consistent with the idea that basic principles of acceptable conduct exist. A manager adopting this philosophy believes that he or she has a moral obligation to safeguard workers' health and safety and to make decisions that support individual rights without regard for the cost. A manager's decision to avoid discrimination in hiring is based on formalistic principles of equality. The manager's decision not to lie would be based on the principle that lying is wrong and not acceptable. Sometimes both deontology and utilitarianism influence the same decision.

Organizational Factors

Successful managers achieve their company's objectives in part by influencing their employees' behavior. If the pressure to produce a result—such as increasing profits—is especially great, the pressure to perform is also strong. How an employee achieves goals is shaped by the ethical climate of the organizational policies set by supervisors and the conduct of coworkers.

Source: michaeljung/Shutterstock

Managers have a significant impact on employees' conduct.

The greater a person's exposure to unethical behavior, the greater is the likelihood that he or she will act unethically. Moreover, employees' perceptions of the ethics of their coworkers and managers are often a stronger predictor of behavior than what employees personally believe to be right or wrong.[8] For example, an employee who sees her coworkers regularly take home company supplies for personal use may engage in the same behavior even if she personally believes it is wrong. Thus, the overall ethical climate in an organization sets the standards for employee conduct. Managers should keep this in mind.

The authority of an employee's superiors also affects ethical behavior. Powerful managers can affect employees' daily activities and directly influence behavior by implementing the company's ethical culture. If managers act unethically, employees may feel that such activities are acceptable within that organization; if a manager asks an employee to do something unethical, the employee may feel pressured to perform the activity even though he feels it is wrong. Accountant Betty Vinson of WorldCom was pressured by her superiors to manipulate the numbers to hide the financial difficulties the company was encountering. Although it was against her personal beliefs, Vinson was persuaded it was the only way of saving the company. Consequently, the role of management is extremely important in fostering ethical behavior in an organization.

Managers who do not view ethics as important may encourage employees to act contrary to their personal ethics. Some employees succumb to organizational pressures rather than following their own values, rationalizing their decisions by maintaining that they are simply "following orders." However, this rationalization has several weaknesses:

1. People who work in organizations can never fully abdicate their personal, ethical responsibility when making business decisions. Claiming to be an agent of the corporation is not accepted as a legal excuse and is even less defensible from an ethical perspective.
2. It is difficult to determine what is in the best interest of the organization. Short-term profits earned through unethical behavior may not be in the long-term interest of the company.
3. A person in a business has a responsibility to parties other than the organization, Stakeholders must be considered when making ethical decisions.[9]

For these reasons, this rationalization does not often hold up in a court of law.

Because employees' perceptions of the ethics of their coworkers influence their behavior, it should not be surprising that work groups within an organization have a strong impact on ethical behavior. In fact, work groups, or the perceived ethicalness of work groups, represent the most important factor affecting daily ethical decisions. The levels of conflict between employees may directly or indirectly influence the amount of unethical behavior within an organization.[10] The more conflict that exists within an organization, the lower the perceptions of the ethicalness of the work group. Because coworkers are so important in accomplishing daily business activities, it is important to support the ethics of the work group. If managers can provide direction and encourage ethical decision making, then the work group becomes a force to help the individuals make better ethical decisions. When managers allow greater participation with regard to the design and implementation of projects, conflict within the work groups is reduced and ethical behavior may improve.

The Role of Opportunity

Opportunity refers to conditions that limit unfavorable behavior and/or reward favorable behavior. These conditions could create the opportunity for an employee to act ethically or unethically. A person who is rewarded or is not punished for unethical behavior is likely to repeat the behavior; a person who receives no reward or is punished for behaving unethically probably will not repeat the action. For example, if a Texas Instruments Inc. employee is caught violating the company's ethical standards, as spelled out in its code of ethics, the employee may be reprimanded, placed on probation, suspended, or even fired. These disciplinary procedures send a message to Texas Instruments employees that unethical or illegal behavior will not be tolerated and make it less likely that an employee will repeat the action that resulted in punishment.

The greater the reward or the smaller the punishment for unethical behavior, the greater is the likelihood that unethical behavior will recur. Indeed, opportunity to engage in unethical behavior has been found to be a better predictor of unethical behavior than one's personal beliefs or the beliefs of peers.[11]

Companies can mitigate the negative effects of opportunity within an organization by adopting one of two control systems: values orientation or compliance orientation. A values orientation relies on shared values between the company and the employees. These values tend to be ideals and can bring cohesiveness to the organization if all members subscribe to the same values. While consequences to unethical behavior are present in this system, the opportunity for unethical behavior may exist to varying degrees as ideals can be interpreted differently among employees.

Source: sen khammoo/Shutterstock

Without the proper guidance and training, employees can engage in behaviors that personally benefit them and violate organizational legal and ethics guidance.

A compliance orientation requires that employees learn and pledge to a specific type of conduct. It uses language that that teaches employees the rules and consequences for noncompliance. Setting clear boundaries for acceptable and unacceptable behavior and assigning consequences to these behaviors, aids the employees in their decision making. When employees understand that their behaviors will be met with consequences, either good or bad, there is little room for ambiguous personal interpretation of how they should act within the company. Reducing the employees' need to interpret a situation eliminates the opportunity for unethical behavior and strengthens the opportunity for ethical behavior.

Both control systems serve the same purpose, to reduce the opportunity for unethical behavior, and the decision as to which one to adopt will depend on a firm's leadership, culture, and employees. However, a values orientation sharpens employees' abil-

ities to reason ethically, making them more aware of ethical situations in the workplace, and make better decisions. The compliance orientation, while effective, focuses the employee's attention more on the consequences of not behaving ethically. This focus is not as likely to change an organization's ethical culture.[12]

Ethics and Compliance Programs

Ethics and compliance programs are designed to support ethical decision making and develop an ethical culture. An ethical culture depends on the values, norms, and behaviors that are instilled within the organization. Ethics programs normally focus on values that provide more abstract core ideals such as accountability and teamwork. Compliance identifies ethical issues and develops rules that require employees to adhere to mandatory conduct. For example, a company may have a rule that an employee cannot accept a gift or promotional item from a supplier with a value of more than $25. Understanding how people choose their standards of ethics and what prompts a person to engage in unethical behavior can help improve ethical behavior in organizations. Most organizations have adopted an ethics program to avoid misconduct and help employees reach a consensus on appropriate action. Leadership is important in developing an ethics program, with top executives and the board of directors providing a system to help the organization deal with ethical issues. Establishing and enforcing ethical standards and policies can help reduce unethical behavior by prescribing which activities are acceptable and which are not, and by removing the opportunity to act unethically. For instance, if top management does not support the program or ensure that employees are adhering to the company's ethical policies, then the program will fail to encourage ethical behavior.

Most organizations have accepted some standard components of an effective ethics program. These steps are based on best practices and the recommendation of the Federal Sentencing Guidelines for Organizations that use these requirements in assessing the due diligence of the company if there is misconduct. Table 4.3 highlights seven minimum requirements for a successful ethics and compliance program.

It is difficult for employees to determine what acceptable behavior is if a company does not have uniform policies and standards. These standards should be based on the assessment of risk and the identification of key ethical issues. Without such policies and standards, employees are likely to base decisions on how peers and superiors behave. Professional **codes of ethics** are formalized rules and standards that describe and delineate what the organization expects of its employees. For instance, Nike has formal ethics codes for both its employees and its suppliers that it expects them to follow. Establishing codes of ethics is the first step in developing an effective ethics and compliance program.

codes of ethics: Formalized rules and standards that describe and delineate what the organization expects of its employees.

TABLE 4.3 Seven Steps for Effective Ethics and Compliance Programs

1. Standards and procedures, such as codes of ethics, that are reasonably capable of detecting and preventing misconduct.
2. High-level personnel who are responsible for an ethics and compliance program.
3. No substantial discretionary authority given to individuals with a propensity for misconduct.
4. Standards and procedures communicated effectively via ethics training programs.
5. Systems to monitor, audit, and report misconduct.
6. Consistent enforcement of standards, codes, and punishment.
7. Continuous improvement of the ethics and compliance program.

Source: Adapted from U.S. Sentencing Commission, *Federal Sentencing Guidelines Manual*, effective November 1, 2004 (St. Paul, MN: West, 2008).

Source: Andrey_Popov/Shutterstock

Many companies engage in ethics training with their employees to make them aware of the ethical issues and how the company would like for them to respond when facing uncertainty.

Codes of ethics and ethics-related corporate policy foster appropriate behavior by limiting the opportunity to behave unethically through the use of punishments for violations of the rules and standards. The enforcement of such codes and policies through rewards and punishments increase the acceptance of ethical standards by employees.

In order for codes of ethics to be effective, top managers including the board of directors, CEO, and chief ethics officer should proactively support the ethics and compliance program. Because employees look to management for direction, they have the opportunity to model acceptable standards and practices for employees. An *ethics officer* is responsible for managing the organization's ethics and compliance program. Among his or her duties, the ethics officer is responsible for overseeing ethics training, assessing ethical risks within the organization, monitoring the firm's ethical conduct, establishing confidential reporting mechanisms that employees can use to report concerns, ensuring compliance with all laws and regulations, disciplining those caught violating ethical rules and policies, and updating the code or revising the program whenever needed. It is imperative that managers in the organization work together to monitor and enforce ethical decision making.

Top managers and the board of directors must also make sure that those put in charge of the ethics program do not have a propensity for misconduct. You would not expect the captain of a large ocean liner to have a previous record of alcohol abuse while on duty. Instead, you expect him or her to obey appropriate policies and regulations, avoid misconduct, and have the knowledge needed to perform his or her duties effectively. The same applies to those in charge of ethics programs. It is important to avoid putting someone in authority of an ethics and compliance program who has had problems with misconduct in the past. Best practices as well as recommendations from government agencies claim that the ethics officer should be able to report directly to the board of directors.

Communication of codes, standards, and requirements through training programs is essential. While codes of ethics are important in communicating the firm's ethical standards, they are not sufficient on their own. Too often companies believe an ethics code will be enough to familiarize employees with ethical decision making. However, as with anything in life, ethics should be practiced to be learned. Ethics training programs are necessary to familiarize employees with the types of situations they may encounter on

their jobs. A strong training program also alerts employees to the company's commitment toward ethical conduct and allows them to ask more detailed questions about ethical procedures. Training programs can involve a wide range of teaching methods, including case studies, behavioral simulations, instructional videos, computer-based instruction, ethics games, and more.

Systems are needed to monitor the program's effectiveness as well as report misconduct. Organizations must also continually review and monitor the firm's ethical culture. One effective way of monitoring the effectiveness of a firm's ethics and compliance program is by conducting an ethics audit. An **ethics audit** is a comprehensive evaluation of a firm's ethics and compliance program and its ethical decisions used to determine whether the program is effective. Ethics audits can help managers uncover hidden ethical risks as well as identify areas for improvement. Managers might also want to provide questionnaires to understand employee perceptions of the firm's ethical culture. Often employees have a better idea of the inner workings of the organization, so getting them involved in the ethics program is imperative.

ethics audit: A comprehensive evaluation of a firm's ethics and compliance program and its ethical decisions used to determine whether the program is effective.

Employees are also more likely to witness misconduct at different levels of the organization. In order to discover and address ethical issues, managers should provide mechanisms that employees can use to report misconduct or concerns. **Whistle-blowing** occurs when employees expose an employer's wrongdoing. This might occur internally or externally. Internal reporting is when an employee reports questionable behavior to a manager or through a hotline. Research suggests that the more ethical the company's culture, the more likely employees are to report concerns internally to managers or to use a hotline.[13] Companies must develop open communication and trust in order to nurture ethical decisions.

whistle-blowing: Occurs when employees expose an employer's wrongdoing. This might occur internally or externally.

It is difficult without ethics training, clear channels of communication, and ethics advocates within the company to provide support throughout the organization. Since some employees fear repercussions for reporting unethical behavior, many firms have set up ethics hotlines that employees can call in order to discuss ethics issues anonymously. In fact, Sarbanes-Oxley has made it mandatory for public companies to have a whistleblower system in place.[14] There is no substitute for individuals thinking through ethical dilemmas and feeling comfortable with their choices.

External reporting occurs when whistleblowers report wrongdoing to outsiders, such as the media or government regulatory agencies. The resulting negative publicity could be seriously damaging to the company. However, it can also be extremely important in discovering misconduct. Whistle-blowers involved with Enron, Lehman Brothers, and Bernard L. Madoff Investment Securities attempted to warn authorities that misconduct was occurring at the company. Failure to listen to whistle-blowers can result in serious misconduct that can damage many stakeholders. Recognizing that whistle-blowers are important in stopping misconduct, the government created a bounty program for whistle-blowers whose allegations result in a conviction of more than $1 million. Under this program, whistle-blowers can receive between 10 and 30 percent of the money.[15]

If a company is to maintain ethical behavior, its policies, rules, and standards must encourage ethical decision making and be enforced through a system of rewards for proper behavior and punishments for unacceptable behavior. Reducing unethical behavior is a goal no different from increasing profits or cutting costs. The manager sets a goal—achieving greater ethical behavior among company employees—and measures

Source: Lisa S./Shutterstock

Ethics hotlines often serve to allow employees to report potential organizational misconduct and receive guidance on the most appropriate conduct.

the outcome. If the number of employees making ethical decisions regularly is not increasing, the manager needs to determine why and take corrective action through stronger enforcement of current standards and policies or by strengthening the standards and policies themselves.

Additionally, there must be continuous improvement of ethics and compliance programs. Ethics programs are never static but always have room for improvement, particularly as new issues constantly arise. The implementation of an ethics program provides a plan for action in operational terms and establishes the means of which the organization's ethical performance will be monitored, controlled, and improved. As the program is implemented, the standards, structures, and resources can be continuously improved to align the company's values and codes of ethics with its employees.

The Nature of Social Responsibility

social responsibility: The obligation a business assumes to maximize its positive impact and minimize its negative impact on society.

Many consumers and social advocates believe that businesses should not only make a profit but also consider the social implications of their activities. **Social responsibility** is the obligation a business assumes to maximize its positive impact and minimize its negative impact on society. While many people use the terms *social responsibility* and *ethics* interchangeably, they do not mean the same thing. Ethics relates to an *individual's* or *business's* values, principles, and standards and the resulting decisions he or she makes, whereas social responsibility is a broader concept that concerns the impact of an *organization's* activities on stakeholders. In other words, ethics has more of a micro focus related to individual and group decisions, whereas social responsibility has more of a macro focus related to how decisions affect stakeholders. From an ethical perspective, we may be concerned about managers' conflict of interest concerning hiring friends or relative for positions in their firms; from a social responsibility perspective, we might be concerned about the impact that this may have on the community's well-being. Thus ethics relates to social responsibility because having a positive impact on society involves making ethical decisions about issues that impact stakeholders.

There are four stages of social responsibility: financial viability; compliance with legal and regulatory requirements; ethics, principles, and values; and corporate citizenship (Table 4.4).[16] A business whose *sole* objective is to maximize profits is not likely to consider its social responsibility, although its activities will probably be legal. Profits are an essential first step, and legal and regulatory responsibilities are the next step. A business that makes no profit or that commits illegal conduct probably will not be around long enough to get to the higher levels of social responsibility. We have discussed ethical conduct, and corporate citizenship involves additional activities that may not be required but which promote human welfare or goodwill. Corporate citizenship requires voluntary activities to strategically align the organization with social issues and contributions to philanthropic causes. While the first two stages have long been acknowledged, ethical issues and corporate citizenship are more recent concerns.

A business that is concerned about society as well as earning profits is likely to invest voluntarily in socially responsible activities. Outdoor clothing and gear company Patagonia, for instance, donates 1 percent of its profits toward environmental causes. Such businesses win the trust and respect of their employees, customers, and society by implementing socially responsible programs, and, in the long run, increase profits. Companies that fail to act responsibly risk losing consumers and may encourage the public and gov-

TABLE 4.4 Social Responsibility Requirements

Stage 1: Financial Viability
Stage 2: Compliance with Legal and Regulatory Requirements
Stage 3: Ethics, Principles, and Values
Stage 4: Corporate Citizenship

Source: nasirkhan/Shutterstock

Corporate social responsibility deals with economic, legal, ethical, and philanthropic interests of stakeholders.

ernment to take action to restrict their activities. Most companies today consider being socially responsible a necessary cost of doing business.

Arguments for and Against Social Responsibility

Although the concept of social responsibility is receiving more and more attention, it is still not universally accepted. Among the arguments against social responsibility are the following:

1. It sidetracks managers from the primary objective of business—earning profits. Every dollar donated to social causes or otherwise spent on society's problems is a dollar less for owners and investors.
2. Participation in social programs gives businesses greater power, perhaps at the expense of particular segments of society.
3. Some people also question whether business has the expertise needed to assess and make decisions about social problems.
4. Many people believe that social problems are the responsibility of government agencies and officials, who can be held accountable by voters.

There are equally strong arguments for asking business to take responsibility for social issues, including the following:

1. Business helped to create many of the social problems that exist today, so it should play a significant role in solving them, especially in the areas of pollution reduction and toxic waste cleanup.

2. Businesses should be more responsible because they have the financial and technical resources to help solve social problems.
3. As members of society, businesses should do their fair share to help others.
4. Socially responsible decision making by business organizations can prevent increased government regulation.
5. Social responsibility is necessary to ensure economic survival: If businesses desire educated and healthy employees, customers with money to spend, and suppliers with quality goods and services in years to come, they must take steps to help solve the social and environmental problems that exist today.

Evolution of Social Responsibility

Before the twentieth century, businesses were largely responsible for defining how they would interact with society; their sole motivation was profit. Consumers could sue businesses that engaged in unscrupulous activities, but such action was expensive and the chances of winning slim. There were no consumer advocates or government agencies to protect consumers and society against deceptive advertising, defective products, or practices that harmed people and the environment. The rule for consumers was *caveat emptor*—"let the buyer beware." Generally, consumers were so anxious for new products that they did not want government intervention. As more and more businesses entered the marketplace, however, competition grew fierce and abuses continued until it was inevitable that the government would have to intervene to protect consumers and workers.

Congress passed laws to reduce the monopolistic tendencies of big business and force companies to provide safer products and work environments. Federal agencies such as the Federal Trade Commission and the Securities and Exchange Commission were set up to protect consumers and police industry. Businesses gradually began to develop a sense of social responsibility when they realized that promotion, sales, and efficient production alone would not increase profits. By the 1950s, after finding that the key to increasing sales is to produce things that people want and need, businesses began to ask customers what they needed and to develop products to meet those needs. At the same time, employees were demanding better working conditions, and management and owners began to listen to them. Companies also began to seriously address the public outcry for product safety and reliability.

The 1960s represented a decade of change on nearly every front. Civil rights abuses, deterioration of the environment, concerns about product safety, and the Vietnam War led Americans to reexamine their values and priorities. People began to recognize that manufacturing processes and waste-disposal methods were harming the environment, and that women and minorities had been denied their full rights in the workplace. The public began to demand that everyone—individuals, government, and businesses—take greater responsibility for their actions. IBM and other companies saw that the way to build a positive image with the public and to ensure future sales was to act in a socially responsible manner.

Source: Paul Brady Photography/Shutterstock

The legal and regulatory environment has had significant impact upon organizational awareness of stakeholder needs.

Scandals during the past 20 years, including the financial crisis brought on by subprime mortgages and risky financial products, have reiterated the need for ethics and social responsibility. Businesses today are expected not only to earn profits

for shareholders but to take into account additional stakeholders, including communities and the environment. This trend has resulted in green product offerings and supply chain practices, community service, volunteerism, and other socially responsible initiatives. More and more businesses view the adoption of socially responsible management techniques, manufacturing processes, charitable donation policies, and more as necessary for meeting the demands of society. In addition, this greater societal demand for socially responsible business activities has led firms such as Whole Foods, Starbucks, Waste Management, and The Container Store to view socially responsible activities as a way to gain competitive advantages.

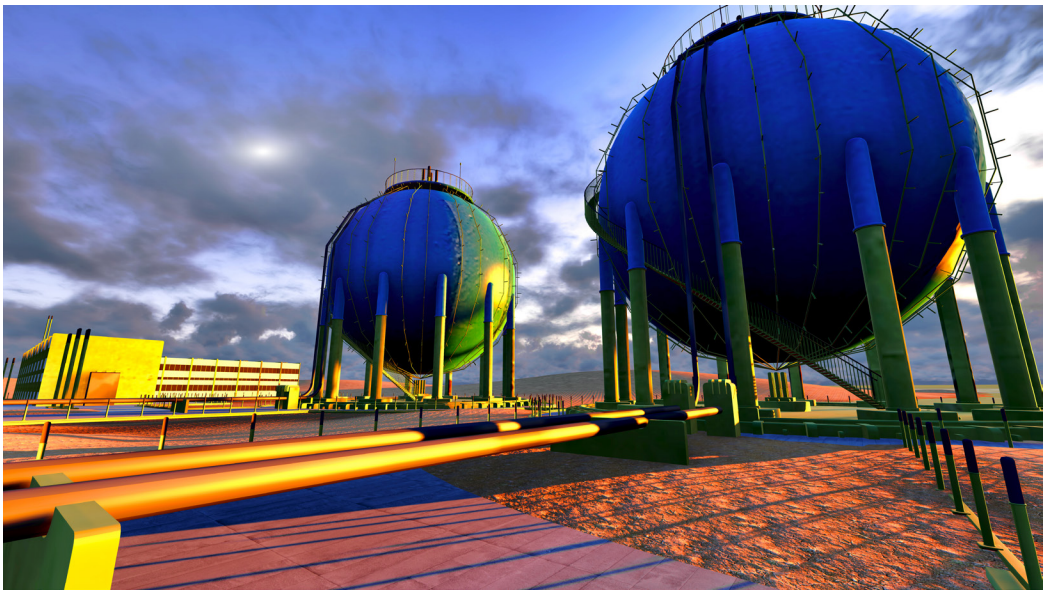
Social Responsibility Issues

As with ethics, managers consider social responsibility on a daily basis as they deal with real issues. Among the many social responsibility issues they must consider are their organizations' relations with owners/investors, employees, customers, the environment, and the community. These key stakeholder groups are associated with the impact of corporate decisions on their well-being. Table 4.5 provides some examples of stakeholder issues. Social responsibility is a dynamic area with issues changing constantly in response to society's desires.

It is often assumed that ethics and social responsibility mean the same thing. As we have already mentioned, they are not synonymous. Ethical decision making occurs when decisions about issues are judged as right or wrong, ethical or unethical. Social responsibility is a broader concept and includes how decisions impact all stakeholders and society.[17] Ethics is embedded in every managerial decision as it relates to questions about right or wrong. Many of these decisions impact the internal environment, including work relationships and the integrity of the work environment. We agree that the impact of managerial decisions on stakeholders does have social responsibility implications. But many

TABLE 4.5 Examples of Stakeholder Issues

Stakeholder Group	Stakeholder Issues
Employees	1. Compensation and benefits 2. Diversity 3. Occupational health and safety 4. Communications
Customers	1. Product safety and quality 2. Customer complaints and concerns 3. Disadvantaged or challenged consumers 4. Truthfulness of communications
Investors	1. Transparency of financial information 2. Shareholder rights 3. Corporate governance 4. Return on investment
Community	1. Public health and safety 2. Sustainability 3. Corporate citizenship 4. Economic contributions
Environmental Groups	1. Minimizing energy use 2. Minimizing emissions and waste 3. Enhancing the viability of animal and plant life 4. Minimizing adverse environmental effects of products



Source: Dariush M/Shutterstock

Many organizational social responsibility initiatives deal with stakeholder concerns and environmental issues.

people only look at ethics as decisions that can affect the environment, enhance sustainability, improve communities, avoid harm to vulnerable stakeholders including children and other disadvantaged groups, etc. Social responsibility issues relate to social issues, consumer protection, corporate governance, legal responsibilities, employee well-being, and sustainability.

While ethical decisions have significant social responsibility ramifications, the managerial decisions made on a daily basis impact the firm's ethical culture as well as its profitability and success. This section highlights a few of the many social responsibility issues that managers face; as managers become aware of and work toward the solution of current social problems, new ones will certainly emerge.

Relations with Owners and Investors

Businesses must be responsible to their owners or shareholders, who are primarily concerned with earning a profit or a return on their investment in a company. In a small business, this responsibility is fairly easy to fulfill because the owner(s) personally manages the business or knows the managers well. In larger businesses, particularly corporations owned by thousands of stockholders, assuring responsibility to the owners becomes a more difficult task.

A business's responsibilities to its owners and shareholders, as well as to the financial community at large, include maintaining proper accounting procedures, providing all relevant information to investors about the current and projected performance of the firm, and protecting the owners' rights and investments. Good corporate governance and compliance with regulations such as the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act create transparency and confidence. In short, a business must maximize the owners' investment in the firm in a socially responsible manner.

Employee Relations

Another issue of importance to business is its responsibilities to employees, for without employees a business cannot carry out its goals. Employees expect businesses to provide them a safe workplace, to pay them adequately for their work, and to tell them what is happening within their company. They want employers to listen to their grievances and treat them fairly.

Congress has passed several laws regulating safety in the workplace, many of which are enforced by the Occupational Safety and Health Administration (OSHA). Labor unions have also made significant contributions to achieving safety in the workplace and improving wages and benefits. Most organizations now recognize that the safety and satisfaction of their employees is a critical ingredient in their success, and many strive to go beyond what is expected of them by the law. Zappos and The Container Store, for instance, focus extensively on employee happiness. While Zappos tries to create a fun, participative environment for employees, The Container Store provides extensive employee training, better pay than comparable retailers, and even a "We Love Our Employees" Day on Valentine's Day. These organizations have discovered the fact that healthy, satisfied employees supply more than just labor to their employers. Employers are beginning to realize the importance of obtaining input from even the lowest-level employees to help the company reach its objectives.

Source: 32/Shutterstock

Employee recognition programs have a significant impact on employee loyalty and satisfaction.

A major social responsibility for business is providing equal opportunities for all employees regardless of their gender, age, race, religion, sexual orientation, or nationality. Women and minorities have been slighted in the past in terms of education, employment, and advancement opportunities; additionally, many of their needs have not been addressed by business. For example, women—who continue to bear most childrearing responsibilities—often experience conflict between those responsibilities and their duties as employees. In the workplace, women continue to be paid less than men for equal work. Today, many Americans believe business has a social obligation to provide special opportunities for women and minorities to improve their standing in society.

Consumer Relations

A critical issue today is business's responsibility to consumers. Consumers look to business to provide them with satisfying, safe products and to respect their rights as consumers. The activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers are known as **consumerism**. To achieve their objectives, consumers and their advocates write letters to companies, lobby government agencies, make public service announcements, and boycott companies whose activities they deem irresponsible.

consumerism: The activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers.

Many of the desires of those involved in the consumer movement have a foundation in John F. Kennedy's 1962 consumer bill of rights, which highlighted four rights. The *right to safety* means that business must not knowingly sell anything that could result in personal injury or harm to consumers. Defective or dangerous products erode public confidence in the ability of business to serve society. They also result in expensive litigation that ultimately increases the cost of products for consumers. This is why many firms will institute product recalls even when there is a slim possibility of defects or contamination. Grocery stores, including Piggly Wiggly and Lowes, issued a voluntary recall of frozen biscuits in 12 states due to fears of *Listeria* contamination. *Listeria* is a type of bacteria that can cause serious and sometimes fatal infections if consumed. Although no one was reported sick at the time of the recall, the stores issued the recall as a precautionary measure.[18] The *right to be informed* gives consumers the freedom to review complete information about a product before they buy. This means that detailed information about ingredients, risks, and instructions for use is to be printed on labels and packages. The *right to choose* ensures that consumers have access to a variety of goods and services at competitive prices. The assurance of both satisfactory quality and service at a fair price is also a part of the consumer's right to choose. The *right to be heard* assures consumers that their interests will receive full and sympathetic consideration when the government formulates policy. It also assures the fair treatment of consumers who voice complaints about a purchased product.

Sustainability Issues

Consumers want not only a multitude of products that improve the quality of life but also a healthy environment so that they can maintain a high standard of living over their lifetimes. Sustainability has become a leading issue in the twenty-first century as both business and the public acknowledge the damage done to the environment by past generations. Today's consumers are increasingly demanding that businesses take a greater responsibility for their actions and impact on the environment. For example, pollution has emerged as one of the major sustainability issues.

Pollution

A major issue in the area of environmental responsibility is that of pollution. Water pollution results from the dumping of toxic chemicals and raw sewage into rivers and oceans, from oil spills, and from the burial of industrial waste in the ground where it may filter into underground water supplies. Fertilizers and insecticides used in farming and grounds maintenance also drain into water supplies with each rainfall. Water pollution problems are especially notable in heavily industrialized areas. A growing concern is the discovery of trace amounts of pharmaceuticals in certain supplies of water. Large oil spills such as the BP *Deepwater Horizon* disaster kill many marine animals and damage the livelihoods of local fishermen. Due to the illnesses that contaminated water can cause, society is demanding that water supplies be clean and healthful to reduce the potential danger from polluting substances.

Air pollution is usually the result of smoke and other wastes emitted by manufacturing facilities, as well as carbon monoxide and hydrocarbons emitted by motor vehicles. In addition to the health risks posed by air pollution, when nitrous oxides and sulfur dioxides from the emissions of manufacturing facilities react with air and rain, acid rain results. Acid rain has contributed to the deaths of many valuable forests and lakes in North America as well as in Europe.

Air pollution may also contribute to the greenhouse effect, in which carbon dioxide collects in the Earth's atmosphere, trapping the sun's heat and preventing the Earth's surface from cooling. This phenomenon is called global warming. Chlorofluorocarbons

Source: Ekton/Shutterstock

Air pollution is a significant global environmental issue.

also harm the Earth's ozone layer, which filters out the sun's harmful ultraviolet light; this too may be a cause of the greenhouse effect. Global warming is controversial, however, and some scientists doubt its existence. Yet a major concern for society is the melting of the Earth's polar ice caps. Melting has appeared to have increased in the last few decades. This melting is believed to be a result of global warming. Extensive melting could lead to the flooding of coastal cities. Species that live along the ice caps, such as polar bears, are at risk of extinction if the rate of melting continues to increase.

Land pollution results from the dumping of residential and industrial waste, strip mining, forest fires, and poor forest conservation. Land pollution is tied directly to water pollution because many of the chemicals and toxic wastes that are dumped on the land eventually work their way into the water supply. Dumping of toxic wastes in Love Canal (near Niagara Falls, New York) caused later residents to experience high rates of birth defects and cancer before they were forced to abandon their homes by the U.S. government in the late 1970s and early 1980s. In Ecuador Chevron has been in a battle against the government amidst allegations that Texaco, which Chevron later acquired, polluted rainforest land.[20] In Brazil and other South American countries, rain forests are being destroyed to make way for farms and ranches, at a cost of the extinction of the many animals and plants (some endangered species) that call the rain forest home. Large-scale deforestation also depletes the oxygen supply available to humans and other animals.

Related to the problem of land pollution is the larger issue of how to dispose of waste in an environmentally responsible manner. Also compounding the waste disposal problem is the fact that more than 50 percent of all solid waste is comprised of plastic goods, which does not decompose. Many communities passed laws that prohibit the use of Styrofoam for this reason.

Response to Environmental Issues

Partly in response to federal legislation such as the National Environmental Policy Act of 1969 and partly due to consumer concerns, businesses are responding to environmental issues. Many small and large companies—from Walt Disney Co. and Chevron—have created a new executive position, a vice president of environmental affairs, to help them achieve their business goals in an environmentally responsible manner. ExxonMobil is publishing estimates on the effects of its business on climate change and policies to deal with climate change.

Many firms are trying to eliminate wasteful practices, the emission of pollutants, and the use of harmful chemicals from their manufacturing processes. Other companies are seeking ways to improve their products. Automakers from all over the world are trying to develop automobiles that run on alternative fuels—electricity, solar power, natural gas, and methanol. Walmart highlights products it deems environmentally responsible so consumers can readily identify them; it also sponsors recycling centers in the parking lots of some stores. Many businesses have turned to recycling, the reprocessing of previously used materials—aluminum, paper, glass, and some plastic—for new purposes. Kellogg's, for example, uses recycled paper in the packaging of its cereal products. Some coffee shops have started using cups made from corn plastic rather than from regular plastic or Styrofoam. Best Buy encourages consumers to recycle their old electronics (e-waste) at their stores. Such efforts to make products, packaging, and processes more environmentally friendly have been labeled "green" business.

It is important to recognize that, with current technology, environmental responsibility requires trade-offs. Society must weigh the huge costs of limiting or eliminating pollution

Source: carmen2011/Shutterstock

Logos such as this represent recycling priorities: reduce, reuse, and recycle.

MANAGEMENT INSIGHTS

Sseko Takes Steps in Social Entrepreneurship

Liz Forkin Bohannon, founder and CEO of Sseko Designs, a socially minded fashion and design company from Portland, Oregon, uses the company as a platform to empower women in Uganda and East Africa. Social entrepreneurship involves creating social value or solving social problems using a business model. In 2008, after traveling to Uganda, Liz was appalled to see the extreme poverty of the people. She discovered that the top 2 percent of high school girls who were eligible to go to a university had to return to their villages and work for nine months to save money for tuition. Most of these girls did not continue their education because their families needed the money for their subsistence. She also learned that these women preferred to work rather than receive a handout. Employee relations is a large part of why Liz chose to start her business in Uganda.

Her first attempt at a socially conscious for-profit business was a short-lived chicken farm. It was then she recalled her college days when she made sandals that used ribbons to avoid the noise made by flip-flops. She redesigned the product by purchasing rubber flip-flop bottoms tied with ribbon. For two weeks, she looked for suppliers while gaining skills in sandal making through tutorial videos on YouTube. She developed a work-study model for Ugandan women who showed college potential. Sseko offers women employment during the nine-month period they have to earn revenues for college. The women make sandals and other products to sell to U.S. consumers. In the process, they learn skills and have the chance to earn wages for college. The sandals became an immediate success when Martha Stewart recommended them in her gift ideas. Sseko's inventory was soon depleted.

To continue the company's growth, Liz and her husband sought funding via the popular ABC reality show *Shark Tank*. Entrepreneurs Mark Cuban, Barbara Corcoran, Kevin O'Leary, Lori Grainer, and Robert Herjavec were offered a 10 percent stake in Sseko for a $300,000 investment. However, Sseko had suffered a $90,000 loss the year earlier and anticipated it would lose money that year as well. The Bohannons explained that the reason for the loss was that they were putting more money into development and hiring more salespeople. They expressed their belief that as more Americans learned about Sseko and its social mission, sales would increase. Debt, managed correctly, can help a firm because it allows it to take on opportunities it would not normally have with limited funds. However, a negative cash flow often turns off investors. Of greatest concern to the sharks was the belief that the Bohannons overvalued their business.

Source: Dirima/Shutterstock

Seeko employs young Uganda women to make sandals and other products for the U.S. market.

The sharks maintained that the company was too focused on its social mission and philanthropy and not enough on profitability. The Bohannons countered that many of today's retailers and customers value companies with a social mission. They maintained that if a company supports a cause the consumer cares about, its brand will be viewed more favorably. They told the sharks that the key to increasing Sseko's profits was to continue social responsibility. Although the sharks declined the opportunity to invest, Sseko's exposure on the show resulted in a 500-fold increase in website traffic and a 1,000 percent increase in sales for that month.

Sseko Designs has already had a major impact on Uganda. Not only is it the largest footwear manufacturer—resulting in more jobs for Uganda and for the Ethiopian and Kenyan artisans who create crafted products for Sseko to sell—it also serves to empower women. Each employee is encouraged to save 50 percent of her salary, which goes into her personal Sseko savings accounts for nine months, after which the account receives a 200 percent match from the company. Additional funding for these scholarships comes from the Sseko Fellows program. This program began two years ago and has 300 fellows. Sseko fel-

MANAGEMENT INSIGHTS

Sseko Takes Steps in Social Entrepreneurship *(continued)*

lows are U.S. social entrepreneurs who sell the company's products directly. Every Sseko fellow is matched with a Sole Sister in Uganda, and every dollar of Sseko product sold in the United States by one of these fellows provides income for the fellow and generates funding to help send a Sole Sister to college. To date, 87 female employees have been able to get a university education thanks to Sseko Designs.

Sseko has developed its reputation through social entrepreneurship by making a profit and maximizing its positive impact on society. By being socially responsible, Sseko shows that there is no conflict between being concerned for the well-being of others and operating a business. In addition, Sseko has established ethical values that serve many stakeholders. In a way, Sseko's social entrepreneurship provides it with its competitive advantage.[19]

against the health threat posed by the pollution. Environmental responsibility imposes costs on both business and the public. Although people certainly do not want oil fouling beautiful waterways and killing wildlife, they insist on low-cost, readily available gasoline, heating oil, and goods. People do not want to contribute to the growing garbage disposal problem, but sometimes do not want to pay more for "green" products packaged in an environmentally friendly manner, to recycle as much of their own waste as possible, and to permit the building of additional waste disposal facilities. Thus, managers must coordinate environmental goals with other social and economic ones.

Alternative and Renewable Energy

With ongoing plans to reduce global carbon emissions, countries and companies alike are looking toward non-carbon-based alternative energy sources. Traditional fossil fuels are problematic because of their emissions, but also because stores have been greatly depleted. Foreign fossil fuels are often imported from politically and economically unstable regions, often making it unsafe to conduct business there. With global warming concerns and fluctuating gas prices, the global governments have begun to recognize the need to look toward alternative forms of energy as a source of fuel and electricity. There have been many different ideas as to which form of alternative energy would best suit the United States' energy needs. These sources include wind power, geothermal energy, solar power, nuclear power, biofuels, and hydropower.

Wind Power

The Great Plains of the United States is one of the greatest sources of wind energy in the world, and many people believe that harnessing this energy will go a long way toward providing for the United States' energy needs in the future, possibly up to 20 percent of total energy needs. However, a number of roadblocks remain between taking abundant wind and turning it into affordable energy. Restructuring the nation's power grids to efficiently transmit wind, solar, and other forms of renewable energy will take significant investments. Widespread adoption of wind power has been slowed in the United States by the high cost of the turbines as well as limitations on an outdated national power grid. The technology is more expensive and less efficient than fossil fuels currently, but advances are being made. Many people believe that the United States will be a wind power hot spot in the future. Many organizations also strongly support the use of wind power. New Belgium Brewing, through the purchase of wind power credits, became the first wind-powered brewery in the country.

Geothermal Power

Another form of renewable energy is geothermal power. Geothermal energy comes from the natural heat inside the earth, which is extracted by drilling into steam beds. Though

Source: N.Minton/Shutterstock

Here is a geothermal plant in New Zealand.

startup costs are high to build geothermal plants, geothermal energy is a relatively clean energy source. The drilling is not pollution free, but its carbon dioxide emissions are one-sixth those produced by efficient natural gas power plants. Geothermal plants also use a lot less water than coal power plants, and unlike wind or solar energy, geothermal power can provide a steady flow of electricity every day of the year. Some IKEA stores use geothermal power to help meet their energy needs.

Despite these advantages, geothermal energy extraction is expensive and supplies less than half of 1 percent of the world's global energy production. It provides one-third of 1 percent of the energy used in the United States. Part of the problem may be that geothermal drilling sites are not readily available everywhere; certain factors, like the permeability of rock, must be taken into account. However, when organizations do tap into geothermal power, the costs savings can be significant. Lipscomb University in Nashville, Tennessee, uses a geothermal heating and cooling system in its Ezell Center that saves the university $70,000 annually on heating and cooling.

Source: Diyana Dimitrova/Shutterstock

Solar is a growing renewable energy source.

Solar Power

Solar power uses the energy from the sun to generate electricity and hot water. This 100 percent renewable, passive energy source can be converted into electricity through the use of either photovoltaic cells (solar cells) on homes and other structures or solar power plants. The major disadvantages of solar power are that the technology remains expensive and inefficient compared to traditional fossil fuel–generated energy, and that the infrastructure for mass production of solar panels is not in place in many locations. Given the strong sunshine in places like the U.S. Southwest and California, solar power has gained a lot of support in the United States. A report from the U.S. Department of Energy states that solar energy usage is at a

new high. Solar energy is becoming an increasingly viable alternative for businesses to cut their pollution and emissions. For instance, many California Walmart facilities, with their huge flat roofs perfect for solar panels, now use solar power to generate electricity. Everywhere you look, the move to harvest the sun's power is growing. The demand for solar power is growing, particularly in the United States, Germany, and China.[21]

Nuclear Power

Countries throughout Europe have managed to greatly reduce their emissions through the implementation of nuclear power plants, yet this form of power remains controversial. Because of the danger associated with nuclear meltdowns and radioactive waste disposal, nuclear power has earned a bad reputation in the United States. On the one hand, nuclear power is pollution-free and cost-competitive. On the other hand, critics are concerned with the safety of nuclear power plants and the disposal of waste. As the production of nuclear power gives off radiation, the safety of workers and the transport of nuclear waste are prime concerns. The Chernobyl accident in the Ukraine in 1986 is the most infamous disaster. The nuclear reactor malfunctioned, resulting in the deaths of 30 people from radiation, and possibly thousands more have experienced negative health effects to this day. Since then, nuclear reactor safety has been improved, yet the potential dangers of nuclear power remain major issues. The dangers of nuclear power were demonstrated after an earthquake and resulting tsunami damaged nuclear reactors in Japan, resulting in a nuclear emergency for the nation. Some are also concerned that nuclear power plants could be targets for terrorist attacks.

Biofuels

Biofuels are fuels derived from organic materials like corn, sugarcane, vegetable oil, and even trash. While ethanol made from sugarcane has been widely used in Brazil for decades, the idea of biofuels is relatively new in the United States. This idea has become especially popular with those who want to reduce their car's carbon output or who are concerned with the nation's addiction to foreign oil. Automobile makers have begun to create flex-fuel and hybrid vehicles that can run on biofuels or gasoline. General Motor's Chevrolet Volt is an electric car with a backup motor for distances over 40 miles. When it uses gasoline, the Volt is designed to run on E85, a blend of 85 percent ethanol (a type of alcohol that can be used as a biofuel) and 15 percent gasoline.

Legal mandates to incorporate biofuels have been passed in some countries. In 1976, for example, the Brazilian government made it a requirement to blend gasoline with ethanol. As a result, Brazil currently is the largest exporter of bioethanol. Part of the reason why biofuels have not been as popular in the United States has to do with the source of the fuel. While Brazil uses sugarcane, which is convertible to fuel because of its high sugar content, the United States relies on corn, which is not as easily converted to fuel. Biofuels are also controversial because they currently use food crops—widespread adoption of biofuels could lead to food shortages. The biofuel infrastructure in the United States also lags behind that in Brazil. Biofuel production in other countries like the Philippines has been criticized because it has contributed to rapid deforestation of ecologically sensitive areas—companies in a rush to create profits from the popularity of biofuels have installed plantations on former jungle land, for example.


Source: pcruciatti/Shutterstock

Ethanol can be produced from corn as well as other plants.

Researchers have been hard at work developing new technologies that could produce biofuels without deforestation of land or food

Source: Constantine Androsoff/Shutterstock

Hydropower has been a renewable source of energy for hundreds of years.

supplies. Cellulosic ethanol would be made from nonedible plants like grasses, sugarcane waste, and wood waste. Algenol, or biofuels made from algae, is also being investigated.

Hydropower

Throughout history, people have used water as a power source and a means of transportation. From the water-powered mills of centuries past to modern hydroelectric dams, water is a powerful renewable energy source. Although in the United States hydroelectric power only provides 7 percent of total output, hydroelectric provides 19 percent of total electricity production worldwide, making it the largest form of renewable energy.

As with all other forms of energy production, hydropower has benefits and downsides. One of the major downsides is the destruction of wildlife habitats, and sometimes even human habitations, when valleys are flooded using dams. Hydroelectricity also disrupts the lifecycles of aquatic life. Damming the Columbia River between Washington and Oregon decimated the region's salmon industry, for example. Benefits of hydroelectric energy include little pollution and inexpensive maintenance costs, once the infrastructure is in place.

Community Relations

A final issue for businesses concerns responsibilities to the general welfare of the communities and societies in which they operate. Many businesses simply want to make their communities better places in which everyone can live and work. Although such efforts cover many diverse areas, some other actions are especially noteworthy. The most frequent way that businesses exercise their community responsibility is through donations to local and national charitable organizations. After realizing that the current pool of prospective employees lacks many basic skills necessary to work, many companies have become concerned about the quality of education in the United States. Although some members of the public fear business involvement in education, others believe that if business wants educated employees and customers in the future, it must help to educate them.

Business is also beginning to take more responsibility for the hard-core unemployed—some mentally or physically handicapped and some homeless organizations such as the National Alliance of Businessmen fund programs to train the hard-core unemployed so that they can find jobs and support themselves. In addition to fostering self-support, such opportunities enhance self-esteem and help people become productive members of society.

Source: Andrei_R/Shutterstock

Social audits inform management about ethical and social performance.

Social Audits

To determine whether it is adequately meeting the demands of society as well as its own social responsibility objectives, an organization can measure its performance through a voluntary social audit. (The term *audit* comes from *audio*, the Latin verb for "to listen.") The **social audit** is a systematic examination of the objectives, strategies, organization, and performance of the social responsibility function. In a social audit, managers evaluate a company's long- and short-term contributions to society to determine whether the firm's social responsibility approach is working. The social audit can also enhance a company's social responsibility efforts by helping management evaluate the effectiveness of current programs and recommend activities for the future.

social audit: A systematic examination of the objectives, strategies, organization, and performance of the social responsibility function.

Managers should conduct a social responsibility audit on a regular basis—perhaps annually—to develop a good benchmark of where the company has been and where it is going. Conducting the audit involves five fundamental activities:

1. Identifying ongoing and new programs that support socially responsible actions and programs,
2. Determining the resources and the cost of resources that are required to support the programs and the benefits that have been achieved to date,
3. Identifying organizational objectives and making certain that social responsibility activities support those objectives,
4. Defining the reasons for undertaking particular social responsibility programs or supporting certain causes, and
5. Evaluating the success of each social responsibility program undertaken and identifying benchmark goals for future involvement.

The concept of auditing implies an official examination of social responsibility activities; however, these audits are often designed to occur informally. Most of the problems that arise in an audit can be attributed to the fact that there are few standards for evaluating social responsibility. The resulting information from the audit should be as quantitative and accurate as possible, depicting both the positive and negative findings.

A social audit can indicate to a firm whether it is living up to the expectations of society. It can pinpoint areas where the firm can take additional steps to maximize the positive effect of its activities as well as to minimize their negative impact. Used effectively, the social audit provides a tool for managers to help their firms become better citizens by contributing positively to society.

Summary and Review

- *Define business ethics and explain its importance to management.* Business ethics refers to moral principles and standards that define acceptable behavior in the world of business. Ethical considerations exist in nearly all management decisions. Ethical decisions foster trust among individuals and in business relationships; unethical ones destroy trust and make the continuation of business difficult, if not impossible.
- *Detect some of the ethical issues that may arise in management.* An ethical issue is an identifiable problem, situation, or opportunity requiring a person or organization to choose from among several actions that must be evaluated as ethical or unethical. Managers should be concerned about ethical issues related to their organization's impact on the environment, the firm's ethical standards, plant closings and layoffs, employee discipline and benefits, discrimination, health and safety, privacy, and drug and alcohol abuse in the workplace, as well as the achievement of organizational objectives in an efficient and ethical manner.
- *Specify how personal moral philosophies, organizational relationships, and opportunity influence decision making in management.* People are guided by different moral philosophies (a set of principles setting forth what is believed to be the right way to behave), each having its own concept of rightness or ethicalness and rules for behavior. Two categories of moral philosophies are utilitarian and deontology. Organizational relationships—including the influence of managers, coworkers, and the work group—are important factors in ethical decision making. The greater a person's exposure to unethical behavior by managers and coworkers, the greater is the likelihood that the person will behave unethically. Opportunity is a set of conditions that punish unfavorable behavior or reward favorable behavior. A person who is not rewarded or is punished for unethical behavior is not likely to repeat the behavior.
- *Examine how managers can try to foster ethical behavior.* Managers can change the organizational environment to promote ethical behavior among employees by limiting opportunity. One important way to do this is through the development of effective ethics and compliance programs. Adopting formal codes of ethics and policies is important because they reduce the incidence of unethical behavior by informing employees of what is expected of them and providing punishments for those who fail to comply. Support from top management is needed for the program to be effective. Often an ethics officer is assigned to manage the organization's ethics and compliance program. Top managers and the board of directors must make sure that those put in charge of the ethics program do not have a propensity for misconduct. Ethics training helps to familiarize employees with the ethical situations they might come across in the workplace. Monitoring the progress of the ethics program is crucial, and managers can use ethics audits to evaluate the effectiveness of an ethics and compliance program and identify weaknesses to be corrected. Managers should also encourage employees to report ethical concerns or observed misconduct. Additionally, if a company is to maintain ethical behavior, managers must enforce its policies, rules, and standards to encourage ethical decisions through a system of rewards for proper behavior and punishments for unacceptable behavior. Finally, managers should continuously seek to improve the company's ethics and compliance program.
- *Define social responsibility and discuss its relevance to management.* Social responsibility is the obligation an organization assumes in order to maximize its positive impact and minimize its negative impact on society. Socially responsible businesses may win the trust and respect of their employees, customers, and society, and in the long run increase profits. There are strong arguments both for and against social responsibility by businesses.
- *Debate an organization's social responsibilities to owners, investors, employees, and consumers, as well as to the environment and the community.* Organizations must be responsible to their owners and investors, who expect to earn a profit or a return on their investment in the company. Businesses must maintain proper accounting procedures, provide all relevant information to investors about the current and projected performance of the firm, and protect the owners' rights and investments. In relations with employees, businesses are expected to provide a safe workplace, pay employees adequately for their work, and treat employees fairly. Consumerism refers to the activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers. Consumers' basic rights are spelled out in John F. Kennedy's 1962 consumer bill of rights: the right to safety, the right to be informed, the right to choose,

and the right to be heard. Increasingly, society expects business to take greater responsibility for the environment. Among the issues of environmental responsibility are water, air, land, and noise pollution. Many businesses engage in activities to make the communities in which they operate a better place in which everyone can live and work.

- *Determine the ethical issues confronting a hypothetical business.* The "Business Dilemma" box presents an opportunity for you to study an ethical dilemma at Bingo's Pizza. Using the material presented in the chapter, you should be able to analyze the ethical issues present in the dilemma, evaluate the McClanahan's plan, and develop a course of action for the firm.

Key Terms and Concepts

business ethics 95
codes of ethics 105
consumerism 113
deontology 102
ethical issue 97
ethics audit 107
individual values 101
social audit 121
social responsibility 108
utilitarianism 102
whistle-blowing 107

Ready Recall

1. Define business ethics. What groups determine whether a business activity is ethical?
2. What is an ethical issue?
3. Distinguish between the utilitarian philosophy and deontology. Supply an example of a business that has used each to make a decision.
4. How does opportunity contribute to unethical decisions in business?
5. What is a code of ethics? How can managers reduce unethical behavior in business?
6. Distinguish between ethics and social responsibility.
7. List and discuss the arguments for and against social responsibility by business. Can you think of any additional argument (for or against)? Can you take a position (for or against) and defend it?
8. What responsibilities does a business have toward its employees?
9. What responsibilities does business have with regard to the environment? What steps have been taken by some responsible businesses to minimize the negative impact of their activities on the environment?
10. What is a social audit? How can a social audit help a business improve its social responsibility activities?

Expand Your Experience

1. Discuss some recent examples of businesses engaging in unethical practices. Why do you think the business chose to behave unethically? What action might the business have taken?
2. Discuss with your class some possible methods of increasing ethical standards in business. Do you think that business should regulate its own activities or should the federal government establish and enforce ethical standards? How do you think businesspeople feel?
3. Find some examples of socially responsible businesses in newspapers or business journals. Explain why you believe their actions are socially responsible. Why do you think a given company chose to act as it did?

Strengthen Your Skills

Making Decisions about Ethical Issues

Below are three debate issues. Form three groups of four to six people and choose one of the debate issues. Each of the three groups will then be divided evenly, such that one group argues for one side of the issue while the other group argues the opposing side. This exercise will help you understand the nuances of ethical decision making through practice. Each team will be given five to ten minutes to debate their side of the issue.

Debate Issue 1: *Is Google Violating Users' Privacy?*

With two billion Google searches a day, Google is the preferred search engine for many consumers. Much of its popularity is due to the superior services it offers. Although

Google does not charge for its services, critics point out that Google's services may actually be costing users their right to privacy. Google keeps all of its users' search queries forever, although after 18 months these queries become "anonymized." In other words, they cannot be tracked back to the user. Google maintains that it uses these searches responsibly to refine its search engine. It also has privacy disclosures fully visible on its main page. On the other hand, the Third Party Doctrine and the Patriot Act allow the government to access users' Internet information without a judge's oversight for national security purposes. Google has been subpoenaed in the past by investigators for user information. Even anonymized data have been used to track a specific person or computer.[22]

1. Google's storage of user data is legitimate and does not constitute a violation of user privacy.
2. Google should not store users' data as this data can be misused or accessed by the government.

Debate Issue 2: *Is Health Care a Right or a Privilege?*

The Universal Declaration of Human Rights, adopted by the United Nations in 1948, proclaims that "everyone has the right to a standard of living adequate for the health and well-being of oneself and one's family, including food, clothing, housing, and medical care." Hard work and healthy living does not assure being healthy. With the high costs of health care, many consumers cannot afford health insurance. The U.S. government has followed other industrialized nations in adopting universal health care.

However, critics argue that it is the individual's responsibility, not the government's, to ensure personal health. Many health problems, such as obesity and diabetes, can often be prevented by individuals choosing to live healthier lifestyles. Another concern involves the cost of health care. Critics believe universal health insurance will increase costs because more people will depend upon the government for health care. This in turn might cause costs to be passed onto the consumers and prompt the government to limit certain types of care. Guaranteeing health care for all may lead people to make riskier decisions because they know that if they get hurt, they are guaranteed health care coverage.

1. Because health care protects life, it is a fundamental right and should therefore be ensured by the federal government.
2. Health care is a privilege and should not be provided by the government because of the high costs involved.

Debate Issue 3: *Examining Warren Buffett as an Effective Leader*

Warren Buffet has been the leader of Berkshire Hathaway, Inc., for more than 40 years. Buffet has been viewed as an ethical leader who emphasizes integrity in his manager choices. His conglomerate is one of the largest companies in the United States. Buffet relies on the character of the CEOs of the various companies in his conglomerate, and in many cases, he may only have a few conversations with the CEO over the course of the year. His trust in his associates was undermined when David Sokol, the leading contender to succeed him, resigned after revelations that he had purchased $10 million in shares of a chemical maker a week before recommending the purchase of the company to Buffett. This broke the company's insider trading rules and duty of candor. While Sokol's trading may fall in a gray area of the law, there are certainly questions about Sokol's disclosures.[23]

1. Warren Buffett is correct in trusting those around him to have high integrity and the ability to make ethical decisions based on their character.
2. Warren Buffett needs to focus more on organizational ethical codes and compliance and less on the character of the manager that he puts in charge of the company.

Case 4: Bank on It: Wells Fargo's Ethical Culture Challenged

Until recently, Wells Fargo was the world's largest bank. Its victory was short-lived, however, when J.P. Morgan overtook Wells Fargo in 2016. The loss of its place as the world's biggest bank came in the wake of a large-scale cross-selling scandal in which it was revealed that Wells Fargo employees had faked 3.5 million customer accounts to meet short-term sales goals. Approximately 5,300 employees were fired, and the firm was slapped with a $185 million fine by the Consumer Financial Protection Bureau (CFPB).

September 2016 marked the unfolding of Wells Fargo's entanglement in a widespread scandal that would implicate several high-level executives and thousands of employees. On September 8, the CFPB, the Los Angeles City Attorney, and the Office of the Comptroller of Currency levied a massive $185 million fine against Wells Fargo, claiming the firm had opened up and/or applied for 2.1 million customer bank or credit card accounts without permission from customers. Furthermore, a bank official acknowledged that the company had terminated over 5,300 employees in relation to the allegations.

Investigations revealed that controversial sales goals most likely encouraged employees to open accounts without customers' permission and knowledge. Employees had continually engaged in fraudulent activities such as opening up fake bank accounts and falsifying signatures to satisfy sales goals and earn financial rewards under the bank's incentive-compensation program. Evidence shows that Wells Fargo had unrealistic sales goals and did not

Source: Jonathan Weiss/Shutterstock

have systems in place to ensure employees were actually engaging in selling.

Although the accusations claimed Wells Fargo employees had opened fake customer accounts since 2011, managers at Wells Fargo claim these same practices had been occurring long before. Susan Fischer, a former Wells Fargo branch manager, confirmed that these shocking sales tactics that encouraged employees to open unauthorized accounts had been around much longer than bank executives have acknowledged. A letter to the CEO from 2007 was recovered that described how employees were opening up fake accounts and forging customer signatures. CEO Stumpf claims he never received this letter or similar letters. However, several employees are coming forward to claim that they reported the misconduct and had their employment terminated as a result. If true, this would directly violate laws that protect whistle-blowers from retaliation.

To reach its lofty sales goals, Wells Fargo also set up incentives to engage employees, which increased commissions around the product being emphasized. These products were cross-sold to customers with an aggressive sales incentive program tied to employee compensation. This incentive program suggests that Wells Fargo executives, managers, and employees forgot that a bank's reputation is built on a basic cultural value of trust. Rather, it falsely became a leader in the banking industry through the utilization of unrealistic sales goals. Managers at many branches played a large role in the establishment of unauthorized accounts.

Yet the responsibility for the misconduct stemmed even further up the organization. After all, if the managers' branches did not meet these new goals, not only could employees be terminated but the managers as well. Although employees opened the accounts and managers implemented procedures to ensure goals were met, the high-level executives who initially set the goals are the most relevant decision makers in this ethical dilemma. These executives were faced with the challenge of finding new ways to distinguish the bank as the leader in the banking industry. To do so, Wells Fargo executives made the decision to establish the sales of simple-to-understand, simple-to-use products such as credit and debit cards, coupled with traditional banking services such as car and home loans. These products were then cross-sold to customers with an aggressive sales incentive program. Once Wells Fargo branch employees realized they could not reach the high set goals, many began opening unauthorized accounts so it would look like they were meeting the goals.

As a result of the scandal, bank customers felt deceived. The bank reported that checking-account openings had fallen 43 percent and credit card applications 55 percent from the year before. The situation worsened in 2017 when the bank discovered 1.4 million more fake accounts, bringing the total number of fake accounts to 3.5 million. Today the bank finds its reputation in ruins thanks to unrealistic sales quotas and a coercive corporate environment.

Wells Fargo chose to adopt a short-term perspective for the temporary gains that came with committing fraud. If Wells Fargo executives and managers had prioritized *how* employees were making their sales goals, then they would have detected the fraud sooner and taken steps to correct it. Wells Fargo has replaced leadership at the top, is becoming more transparent about its past misconduct, and plans to improve ethics and compliance in the future. Often, firms that deal with highly visible misconduct develop some of the strongest ethical cultures in their industry going forward. Only time will tell in the case of Wells Fargo.[24]

1. How did Wells Fargo's focus on short-term gains violate the duties owed to consumers, regulators, and employees?
2. Describe how the Wells Fargo scandal demonstrates that organizational leaders must not only establish goals but also ensure that those goals are being acted upon appropriately.
3. Why are ethical values useless unless they are continually reinforced within the company?

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