Chapter 5
Ethics and Social Responsibility

Chapter Outline

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Annotated Learning Objectives

After studying this chapter, students should be able to:

1. Define ethics and explain how ethical behavior relates to behavior governed by law and free choice.

   Ethics is difficult to define in a precise way. In a general sense, ethics is the code of moral principles and values that govern the behaviors of a person or group with respect to what is right or wrong. Ethics sets standards as to what is good or bad in conduct and decision-making.

   Human behavior falls into three categories. The first is codified law, in which values and standards are written into the legal system and enforceable in the courts. The domain of free choice is at the opposite end of the scale and pertains to behavior about which law has no say and for which an individual or organization enjoys complete freedom. Between these domains lies the area of ethics. This domain has no specific laws, yet it does have standards of conduct based on shared principles and values about moral conduct that guide an individual or company.

2. Explain the utilitarian, individualism, moral-rights, and justice approaches for evaluating ethical behavior.

   Normative ethics uses several approaches to describe values for guiding ethical decision-making.

   Utilitarian approach. Holds that moral behaviors produce the greatest good for the greatest number. In this approach, a decision maker is expected to consider the effect of each decision alternative on all parties and select the one that optimize the satisfaction for the greatest number of people.

   Individualism approach. Also called egoism, contends that acts are moral when they promote the individual’s best long-term interests. Individuals calculate the best long-term advantage to themselves as a measure of a decision’s goodness. The action that is intended to produce a greater ratio of good to bad for the individual compared with other alternatives is the right one to perform.

   Moral-rights approach. Asserts that people have fundamental rights and liberties that cannot be taken away by an individual’s decision. Thus, an ethically correct decision is one that best maintains the rights of those affected by it.

   Justice approach. Holds that moral decisions must be based on standards of equity, fairness, and impartiality. Three types of justice are of concern to managers. Distributive justice requires that different treatment of people not be based on arbitrary characteristics. Procedural justice requires that rules be administered fairly. Rules should be clearly stated and be consistently and impartially enforced. Compensatory justice argues that individuals should be compensated for the cost of their injuries by the party responsible. Individuals should not be held responsible for matters over which they have no control.
3. Describe how both individual and organizational factors shape ethical decision-making.

Individual managers bring specific personality and behavioral traits to the job. Personal needs, family influence, and religious background all shape a manager’s value system. Specific personality characteristics, such as ego strength, self-confidence, and a strong sense of independence may enable managers to make ethical decisions.

Values adopted within the organization are important. Corporate culture can exert a powerful influence on behavior in organizations. Organizational culture provides ethical signals to employees. Heroes provide role models that can support ethical decision-making. High ethical standards are affirmed through public awards and ceremonies. Myths and stories can reinforce heroic ethical behavior. Other aspects of the organization such as rules and policies, the reward system, the extent to which the company cares for its people, the selection system, emphasis on legal and professional standards, and leadership and decision processes also impact on ethical decision-making.

4. Define corporate social responsibility and how to evaluate it along economic, legal, ethical, and discretionary criteria.

Social responsibility is management’s obligation to make choices and take actions that will contribute to the welfare and interests of society as well as to the welfare and interests of the organization. It means being a good corporate citizen.

Social responsibility can be evaluated along the following criteria:

- Economic. The economic responsibility of a business is to produce the goods and services that society wants and to maximize profits for its owners and shareholders. The purely profit-maximizing view is no longer considered an adequate criterion of performance in Canada, the United States, and Europe.

- Legal. Legal responsibility defines what society deems important with respect to appropriate corporate behavior. Businesses are expected to fulfill their economic goals within the legal framework.

- Ethical. Ethical responsibility includes behaviors that are not necessarily codified into law and may not serve the corporation’s direct economic interests. Unethical behavior occurs when decisions enable an individual or company to gain at the expense of society.

- Discretionary. Discretionary responsibility is purely voluntary and guided by a company’s desire to make social contributions not mandated by economics, law, or ethics. Discretionary activities include philanthropic contributions that offer no payback to the company and are not expected.
5. Describe four organizational approaches to environmental responsibility and explain the philosophy of sustainability.

Shades of green are used to evaluate a company’s commitment to environmental responsibility. The various shades represent a company’s approach to addressing environmental concerns. Under the legal approach, an organization does just what is necessary to satisfy legal requirements. In general, managers and the company show little concern for environmental issues. The next shade, the market approach, represents a growing awareness of and sensitivity to environmental concerns, primarily to satisfy customers. A company might provide environmentally friendly products because customers want them, for instance, not necessarily because of strong management commitment to the environment.

A further step is to respond to multiple demands from the environment. The stakeholder approach means that companies attempt to answer the environmental concerns of various stakeholder groups, such as customers, the local community, business partners, and special interest groups. At the highest level of green, organizations take an activist approach to environmental issues by actively searching for ways to conserve the Earth’s resources.

6. Discuss how ethical organizations are created through ethical leadership and organizational structures and systems.

Management is responsible for creating and sustaining conditions in which people are likely to behave themselves. Managers must take active steps to ensure that the company stays on an ethical footing. Management methods for helping organizations be more responsive include leadership by example, codes of ethics, ethical structures, and supporting whistle-blowers.

7. Identify important stakeholders for an organization and discuss how managers balance the interest of various stakeholders.

A stakeholder is any group within or outside the organization that has a stake in the organization’s performance. Each stakeholder has a different criterion of responsiveness because it has a different interest in the organization. Important stakeholders include investors, employees, customers, owners, creditors, suppliers, and investors. When any primary stakeholder group becomes seriously dissatisfied, the organization’s viability is threatened.

Lecture Outline

Suggested Opening Remarks

The management challenge at the beginning of the chapter illustrates how difficult issues of ethics and social responsibility can be.

Timberland decided to continue its commitment to social causes. In fact, later the same year Swartz was faced with this dilemma, the company doubled the number of hours it underwrote for employees to do community service. That number has increased to a full 40-hour week, plus the company paid sabbaticals for people to work six months full-time...
in community nonprofits. This commitment to discretionary responsibility has contributed to exceptional loyalty among many employees, because people feel good about the work they do. One vice president says she has turned lucrative offers from other companies because at Timberland she doesn’t feel like she has to check her values at the door. Timberland consistently ranks in Fortune magazine’s survey of the 100 Best Companies to Work For, and more than 50 percent of Timberland’s employees say the focus on community service is the main reason they work there.

However, some people felt that Timberland should have cut out the charity activities to focus on meeting its economic responsibilities when the company was failing to meet its ethical responsibilities by spending money on community service when it was laying people off and shipping jobs overseas. Some employees bluntly asked, “Doesn’t charity begin at home?” Swartz said. He believed, however, that cutting out community service would damage morale and lower commitment without solving the financial problems. Fortunately, Timberland rebounded from its difficulties and continued to grow. However, managers will continue to face challenges concerning how to best meet their responsibilities to all stakeholders.

1. WHAT IS MANAGERIAL ETHICS?  

Exhibit 5.1

What is ethics?

Ethics is the code of moral principles and values that govern the behaviors of a person or group with respect to what is right or wrong.

Ethics sets standards as to what is good or bad in conduct and decision-making.

Ethics deals with internal values that are a part of corporate culture and shapes decisions concerning social responsibility with respect to the external environment.

An ethical issue is present when the actions of a person or organization may harm or benefit others.

Human behavior falls into three categories:

- **Codified law.** Values and standards are written into the legal system and are enforceable in the courts.
  
  Lawmakers have ruled that people and corporations must behave in a certain way such as obtaining licenses for cars or paying taxes.
  
  Obedience is to laws prescribed by the legal system.

- **Domain of free choice.** The opposite of codified law.
  
  Free choice pertains to behavior about which law has no say and for which an individual or organization enjoys complete freedom.

  Obedience is strictly to oneself.

  An individual’s choice of a marriage partner or religion is an example of free choice.

- **Ethics** lies between the domains of codified law and free choice.

  This domain has no specific laws.
Ethics has standards of conduct based on shared principles and values about moral conduct that guide an individual or company.

Obedience is to unenforceable norms and standards about which the individual or company is aware.

Because ethical standards are not codified, disagreements and dilemmas about proper behavior often occur.

An ethical dilemma arises when each choice or behavior is undesirable because of potentially negative ethical consequences.

Right or wrong cannot be clearly identified.

The individual who must make an ethical choice in an organization is the moral agent.

Discussion Question #1: Dr. Martin Luther King, Jr., said, “As long as there is poverty in the world, I can never be rich.... As long as diseases are rampant, I can never be healthy.... I can never be what I ought to be until you are what you ought to be.” Discuss this quote with respect to the material in this chapter. Would this be true for corporations, too?

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II. CRITERIA FOR ETHICAL DECISION-MAKING

Most ethical dilemmas involve a conflict between the individual versus the organization and the organization versus society as a whole.

Managers faced with tough ethical choices often use normative ethics to guide their decision-making.

Should employee drug testing be instituted to benefit the organization as a whole but limit the individual freedom of employees?

Normative ethics is based on norms and values. The following normative approaches describe values for guiding ethical decision-making:

A. Utilitarian Approach.

The utilitarian approach holds that moral behaviors produce the greatest good for the greatest number.

The decision maker is expected to consider the effect of each decision alternative on all parties and select the one that will optimize the satisfaction for the greatest number of people.

This was the basis for the trend to police employee personal habits such as alcohol and tobacco consumptions on the job because such behavior affects the entire workplace.

This was the basis for Oregon to extend Medicaid to 400,000 previously ineligible recipients by refusing to pay for high-cost, high-risk procedures such as liver transplants.

B. Individualism Approach.
The *individualism approach* contends that acts are moral when they promote the individual’s best long-term interests, which ultimately leads to the greater good.

The action that is intended to produce a greater ratio of good to bad for the individual compared with other alternatives is the right one to perform.

*Individualism* is believed to lead to honesty and integrity because that works best in the long run; lying and cheating causes business associates to lie and cheat in return.

Because individualism is easily misinterpreted to support immediate self-gain, it is not popular in the highly organized and group-oriented society of today.

Dozens of disgraced top executives from Enron and other companies demonstrate the flaws of the individualism approach; this approach is the closest to the domain of free choice.

C. Moral-Rights Approach.

The *moral-rights approach* asserts that human beings have fundamental rights that cannot be taken away by an individual’s decision.

An ethically correct decision is one that best maintains the rights of those people affected by it.

Moral rights that could be considered during decision-making are the right:

- *The right of free consent*---individuals are to be treated only as they knowingly and freely consent to be treated.
- *The right to privacy*---individuals can choose to do as they please away from work and have control of information about their private life.
- *The right of freedom of conscience*---individuals may refrain from carrying out any order that violates their moral or religious norms.
- *The right of free speech*---individuals may criticize truthfully the ethics or legality of actions of others.
- *The right to due process*---individuals have a right to an impartial hearing and fair treatment.
- *The right to life and safety*---individuals have a right to live without endangerment or violation of their health and safety.

D. Justice Approach.

The *justice approach* holds that moral decisions must be based on standards of equity, fairness, and impartiality.

Types of justice of concern to managers are:

- *Distributive justice*. Requires that different treatment of people not be based on arbitrary characteristics.
  
  Men and women should not receive different salaries if they are performing the same job; however, people who differ in a substantive way can be treated differently.

- *Procedural justice*. Requires that rules be administered fairly.
Compensatory justice. Argues that the party responsible should compensate individuals for the cost of their injuries. Individuals should not be held responsible for matters over which they have no control. Most laws guiding human resource management are based on the justice approach because it assumes that justice is applied through rules and regulations. Managers are expected to define attributes on which different treatment of employees is acceptable. Questions such as how minority workers are compensated for past discrimination are extremely difficult; however, this approach does justify ethical behavior to right past wrongs.

Discussion Question #3: Compare and contrast the utilitarian approach with the moral-rights approach to ethical decision-making. Which do you believe is the best for managers to follow? Why?

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III. FACTORS AFFECTING ETHICAL CHOICES

Why is individual integrity not the only factor involved in making ethical choices?

Ethical or unethical business practices usually reflect the values, attitudes, beliefs, and behavior patterns of the organizational culture.

Ethics is as much an organizational as a personal issue.

The values held by both the manager and the organization shape ethical decision-making.

A. The Manager

The manager brings specific personality and behavioral traits to the job.

Personal needs, family influence, and religious background all shape a manager’s value system.

Personality characteristics, such as ego strength, self-confidence, and a strong sense of independence may enable managers to make ethical decisions.

In making ethical decisions an important personal trait is the manager’s level or stage of moral development.

- Preconventional level. At this level a manager is concerned with the external rewards and punishment and the personal consequences.

- Conventional level. Here managers learn to conform to the expectations of good behavior as defined by colleagues, friends, family, and society.
At this level people respect external expectations as defined by colleagues, friends, family, and society.

- **Principled level.** Here individuals develop an internal set of standards and values.
  
  Internal values are more important than expectations of significant others; managers at level make ethical decisions whatever the organizational consequences.

A great majority of managers operate at the conventional level.

A few managers have not advanced beyond the preconventional level.

About 20 percent of American adults reach the principled level of moral development.

Researchers cannot account for the ways women view social reality and develop psychologically; women are consistently classified at lower levels of development.

Women may perceive moral complexities more astutely than men and make moral decisions not based on absolute right and wrong but on not causing harm to others.

Globalization has made ethical issues even more complicated for today’s managers; American expatriate managers need sensitivity and openness to other systems.

**Exhibit 5.3**

Transparency International, and international organization that monitors corruption, publishes an annual report ranking countries according to how many bribes are offered by their international businesses.

Findings showed that in Russia, China, Taiwan, and South Korea, international companies used bribes “on an exceptional and intolerable scale.”

However, firms in the U.S., Japan, France, and Spain had a high propensity to pay bribes overseas.
MANAGER’S SHOP TALK

Guidelines for Ethical Decision Making

If a 60 Minutes crew were waiting on your doorstep one morning, would you feel comfortable justifying your actions to the camera? One young manager, when confronted with ethical dilemmas, gives them the 60 Minutes test. Others say they use such criteria as whether they would be proud to tell their parents or grandparents about their decisions or whether they could sleep well at night.

Guidelines:

• Is the problem/dilemma what it appears to be?
• Is the action legal, ethical?
• Do you understand the opposing position?
• Whom does the action benefit? Harm?
• Would you allow everyone to do what you are considering doing?
• Have you sought the opinion of others who are knowledgeable and objective?
• Would the action embarrass you or your family if known?
• What is your gut instinct about the action?

B. The Organization

Values adopted within the organization are important.

Considering most managers operate at the conventional level of moral development, most believe their duty is to fulfill the obligations and expectations of others.

Accounting managers at WorldCom, which disintegrated in an $11 billion fraud scandal, were not unscrupulous people; they followed their supervisor’s requests.

Exhibit 5.3

For most people, doing something wrong is easier when “everyone is doing it.”

In organizations, the norms and values of the team, department, or organization have a profound influence on ethical behavior.

Research has verified that these values strongly influence employee actions and decision making; if unethical behavior is tolerated, it becomes routine.

In many companies, employees believe that if they do not go along, their jobs will be in jeopardy or they will not fit in.

Other aspects of the organization that impact on ethical values and manager decision-making include:

• Explicit rules and policies
• The reward system
• The company’s degree of caring for employees
• The selection system
• Emphasis on legal and professional standards
• Leadership
• Corporate decision processes

Discussion Question #4: Imagine yourself in a situation of being encouraged to inflate your expense account. Do you think your choice would be more affected by your individual moral development or by the cultural values of the company for which you worked? Explain.

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IV. WHAT IS SOCIAL RESPONSIBILITY?

Social responsibility means distinguishing right from wrong; it means being a good corporate citizen.

Social responsibility is management’s obligation to make choices and take actions that will contribute to the welfare and interests of society as well as to the welfare and interests of the organization.

Social responsibility can be a difficult concept to grasp because people have different beliefs as to which actions improve society’s welfare.

Social responsibility covers a wide range of issues which are ambiguous as to what is right or wrong.

What about two companies engaged in intense competition? Is it socially responsible for a strong company to drive a weak company out of business?

A company’s environmental impact must also be taken in consideration.

Discussion Question #2: Environmentalists are trying to pass laws for oil spills that would remove all liability limits for the oil companies. This would punish corporations financially. Is this the best way to influence companies to be socially responsible?

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V. ORGANIZATIONAL STAKEHOLDERS

Why must managers must resolve the question of “responsibility to whom?”

Enlightened organizations view the internal and external environment as having a variety of stakeholders.

An organizational stakeholder is any group within or outside the organization that has a stake in the organization’s performance.

Each stakeholder has a different criterion of responsiveness because it has a different interest in the organization.

Wal-Mart uses aggressive bargaining with suppliers to get low prices for consumers; some see this tactic as responsible while others see it as unethical and irresponsible.

Stakeholders can have a tremendous effect on the organization’s performance and success. Consider the case of Monsanto, a leader in the life sciences industry.

Important stakeholders and their expectations:

- Employees expect work satisfaction
- Investors, owners, and suppliers expect managerial efficiency to achieve profits
- Customers expect quality and availability of goods and services
- Government expects compliance with the law
- Community, including local government, expects natural and physical environment and quality of life for residents
- Special-interest groups, including trade associations and political action committees

Socially responsible organizations pay attention to all stakeholders who are affected by their actions.

Today, special interest groups continue to be one of the largest stakeholder concerns that companies face.

Environmental responsibility has become a primary issue as both business and the public acknowledge the damage that has been done to our natural environment.

Discussion Question #5: Is it socially responsible for organizations to undertake political activity or join with others in a trade association to influence the government? Discuss.

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UNLOCKING CREATIVE SOLUTIONS THROUGH TECHNOLOGY

Using the Web to Promote Social Responsibility

The Internet has become a crucial weapon in the fight to make corporations more socially responsible. For example, social activists have long used shareholder pressure as an important means of promoting their goals. Now, with the ability to rapidly spread information on the Web, nonprofit organizations such as the As You Sow Foundation can quickly rally shareholders and mount campaigns against corporate practices they consider irresponsible. As You Sow is currently involved in dialogues with companies like Wal-Mart, Nike, Disney, and McDonald’s concerning labor and human rights abuses in contract supplier plants.

VI. THE ETHIC OF SUSTAINABILITY AND THE NATURAL ENVIRONMENT

Exhibit 5.6

- Explain how environmental concerns have grown since 1970?

Environmental issues have become a major topic among business leaders, and managers and organizations in all industries have jumped on the environmental bandwagon.

One model uses the phrase *shades of green* to evaluate a company’s commitment to environmental responsibility.

- With a legal approach, a company does just what is necessary to satisfy legal requirements.
- The next shade, the market approach, represents a growing awareness of and sensitivity to environmental concerns, primarily to satisfy customers.
- The stakeholder approach means that companies attempt to answer the environmental concerns of various stakeholder groups, such as customers or business partners.
- The activist approach to environmental issues by actively searching for ways to conserve the Earth’s resources.

*Sustainability* refers to economic development that generates wealth and meets the needs of the current generation while saving the environment so future generations can meet their needs.

UPS released its first Corporate Sustainability Report in 2002; the UPS fleet includes 2,000 alternative fuel vehicles.

Discussion Question #2: *Environmentalists are trying to pass laws for oil spills that would remove all liability limits for the oil companies. This would punish corporations financially. Is this the best way to influence companies to be socially responsible?*
VII. EVALUATING CORPORATE SOCIAL PERFORMANCE

Total corporate social responsibility can be subdivided into the criteria of economic, legal, ethical, and discretionary responsibilities.

These four criteria fit together to form the whole of a company’s social responsiveness.

Social responsibility has become an important topic on the corporate agenda in the light of corporate scandals, concerns about globalization, and a growing mistrust of business.

A. Economic Responsibility.

The first criterion of social responsibility is economic responsibility; the business institution is the basic economic unit of society.

Its responsibility is to produce the goods and services that society wants and to maximize profits for its owners and shareholders.

Economic responsibility carried to extreme is called the profit-maximizing view, advocated by Nobel economist Milton Friedman.

This view argues that the corporation should be operated on a profit-oriented basis, with its sole mission to increase its profits so long as it stays within the rules.

The purely profit-maximizing view is not considered an adequate criterion of performance in Canada, the United States, and Western Europe.

This approach means that economic benefit is the only social responsibility and can lead companies into trouble.

B. Legal Responsibility.

Legal responsibility defines what society deems important with respect to appropriate corporate behavior.

Businesses are expected to fulfill their economic goals within the law.

Legal requirements are imposed by local governments, state legislators, and federal regulatory agencies.

Organizations that knowingly break the law are poor performers in this category.

Tenet Healthcare paid $54 million to settle a lawsuit charging that a hospital was cheating Medicare by performing unnecessary cardiac procedures.

C. Ethical Responsibilities

Ethical responsibility includes behaviors that are not necessarily codified into law and may not serve the firm’s direct economic interests.
To be *ethical*, decision makers should act with equity, fairness, and impartiality, respect the rights of individuals, and treat individuals differently only when relevant to the organization’s goals.

*Unethical behavior* occurs when decisions enable an individual or company to gain at the expense of society.

At the *New York Times*, managers suspected that Jason Blair was fabricating research on top stories, but they ignored the signals to protect the paper’s reputation.

**Discussion Question #8:** Do you believe it is ethical for companies to compile portfolios of personal information on their Web site visitors without informing them? How about for organizations to monitor their employees use of the Web? Discuss.

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**D. Discretionary Responsibility**

*Discretionary responsibility* is voluntary and guided by a company’s desire to make social contributions not mandated by economics, law, or ethics.

Discretionary activities include philanthropic contributions that offer no payback to the company and are not expected.

General Mills spent $2.5 million and donated thousands of hours of employee time to help rid a neighborhood of crime and drugs.

Discretionary responsibility goes beyond what society expects a firm to contribute to the community’s welfare.

**Discussion Question #10:** Lincoln Electric considers customers and employees to be more important stakeholders than shareholders. Is it appropriate for management to define some stakeholders as more important than others? Should all stakeholders be considered equal?

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**VIII. MANAGING COMPANY ETHICS AND SOCIAL RESPONSIBILITY**

*Exhibit 5.9*

Management is responsible for creating and sustaining conditions in which people are likely to behave themselves.
Managers must take active steps to ensure that the company stays on an ethical footing.

Ethical business practices depend on individual managers and the organization’s values, policies, and practices.

Managers can use the three pillars that support an ethical organization.

A. Ethical Individuals.

Managers who are essentially ethical individuals make up the first pillar.

These individuals possess honesty and integrity, which is reflected in their behavior and decisions; people trust them because they can be relied upon.

Being a moral person and making ethical decisions is not enough; ethical managers encourage the moral development of others.

They find ways to focus the entire organization’s attention on ethical values and create an organizational environment that encourages, guides, and supports ethical behavior.

Two additional pillars are needed to provide a strong foundation for an ethical organization: ethical leadership and organizational structures and systems.

B. Ethical Leadership.

In a study of ethics policy and practice, no point emerged more clearly than the crucial role of leadership.

Employees are aware of their boss’s ethical lapses, and the company grapevine communicates situations in which top managers choose an expedient action over an ethical one.

If people don’t hear about values from top leadership, they get the idea that ethical values are not important in the organization.

Consistently rewarding ethical behavior and disciplining unethical conduct is a critical component of providing ethical leadership.

C. Organizational Structures and Systems.

The third pillar of ethical organizations is the set of tools that managers use to shape values and promote ethical behavior throughout the organization.

Three of the tools are codes of ethics, ethical structures, and mechanisms for supporting whistle-blowers.


A code of ethics is a formal statement of the company’s values concerning ethics and social issues, it communicates to employees what the company stands for.

Codes of ethics tend to exist in two types:

- Principle-based statements designed to affect: corporate culture; define fundamental values, company responsibilities, quality of products, and treatment of employees
• Policy-based statements outline the procedures to be used in specific ethical situations such as marketing, conflicts of interest, observance of laws, proprietary information, political gifts, equal opportunities

Discussion Question #9: Which do you think would be more effective for shaping long-term ethical behavior in an organization: a written code of ethics combined with ethics training or strong ethical leadership? Why?

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2. Ethical Structures.

The systems, positions, and programs a company can develop to implement ethical behavior such as:

• Ethics committee. A group of executives appointed to oversee the organization’s ethics by ruling on questionable issues and disciplining violators.

• Chief ethics officer. A company executive who oversees ethics and legal compliance.

• Ethics training programs. Training programs to help employees deal with ethical questions and values.

3. Whistle-blowing.

Whistle-blowing is the disclosure by an employee of illegal, immoral, or illegitimate practices by the organization.

Some firms have instituted innovative programs and confidential hotlines to encourage and support internal whistle-blowing.

Whistle-blowers must be protected if this is to be a benefit to the company.

When there are no protective measures, whistle-blowers suffer; it is risky because whistle-blowers can lose their jobs, be ostracized, or be transferred.

Discussion Question #7: What are some current ethical issues in the business news? Identity one company that seems to be handling an issue in an ethical and socially responsible manner and one that appears to be unethical or socially irresponsible.

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IX. ETHICAL CHALLENGES IN TURBULENT TIMES

The problem of lax ethical standards has escalated in recent years; public reaction has been swift and unforgiving.
Any ethical misstep can cost a company its reputation and hurt its profitability; Martha Stewart was charged with insider trading and her company lost $400 million.

One reason for the proliferation of ethical lapses is the turbulence of our times; managers make poor choices because they don’t have the time to weigh the situation.

The combination of a turbulent domestic environment, the globalization of business, and increasing public scrutiny has convinced managers to pay attention to social responsibility.

A. Economic Performance

The relationship of a corporation’s ethics and social responsibility to its financial performance concerns both managers and management scholars.

One concern is whether good citizenship will hurt performance.

Studies have generally found that there is a small positive relationship between social responsibility and superior financial performance.

This is encouraging because this means the use of resources for ethics and social responsibility do not hurt the company.

Companies are making the effort to measure the nonfinancial factors that create value; people prefer to work for a company that demonstrates a high level of ethics.

Although doing the right thing might not always be profitable in the short run, it develops a level of trust that money can’t buy; it provides a competitive advantage.

B. Social Entrepreneurship

Some organizations are taking social responsibility to the extreme, building whole companies that combine good business with good citizenship.

ACCION partners with banks to give tiny loans to start tiny businesses in poor countries; a Bolivian woman used a $100 loan to start a bread making business.

Social entrepreneurs are committed to both good business and changing the world for the better.

The organizations started by social entrepreneurs may not make a profit, but the bottom line is always social betterment for both business and society.

UNLOCKING CREATIVE SOLUTIONS THROUGH PEOPLE

Rubicon Does Good Deeds—and Good Business

The Rubicon Bakery has a goal of making the best cake in the business. The Rubicon grosses $300,000 in its busiest month, and many customers don’t care who makes the cakes, breads, or other goodies they enjoy. Rubicon employs formerly homeless, mentally-ill people, or recovering addicts. They come to Rubicon looking for a new start, and they find it. For Rick Aubry, executive director of Rubicon Programs, it’s not all about business. The career center provided job training for 800 people in 2003 and placed 400 in new jobs. Rubicon tracks results relentlessly, both in terms of business operations and social accomplishments.
Discussion Question #11: Do you think a social entrepreneur can run a profitable business with a primary goal of improving society? Discuss.

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Lecture Example File

National task force will investigate Enron

The Justice Department has opened a criminal investigation into Enron Corporation, whose employees lost billions when the company barred them from selling plummeting Enron shares from their retirement accounts.

The department has formed a national task force, headed by the criminal division and made up of federal prosecutors in Houston, San Francisco, New York, and several other cities.

The Labor Department and the Securities and Exchange Commission are conducting civil investigations. Enron attorney Robert Bennett said the company was pleased with the prospect of Justice Department investigation that would “bring light to the facts.” “It’s a positive development,” Bennett said. “As I understand it, this means there will be a centralized investigation at the Justice Department. …It’s important that we not let the Washington scandal machine take over, which will have as a consequence that every move will be politicized and the facts will be trivialized.”

While ordinary employees were prohibited from selling company stock from their Enron-heavy 401(k) accounts, Enron executives cashed out more than $1 billion in stock when it was near its peak.

In addition to retirees and some 4,500 out-of-work employees, countless investors, throughout the country have been burned by Enron’s rapid descent into federal bankruptcy court in recent weeks.

Enron, which was the nation’s seventh-biggest company in revenue and admired by Wall Street as a technological innovator, has acknowledged it overstated profits for four years. The chief executive of its longtime auditor, Arthur Andersen LLP, told a House hearing last month that the accounting firm notified Enron’s audit committee on November 2, 2002 of “possible illegal acts within the company.”

Enron, which was formed in 1985 and has 20,000 employees, was once the world’s top buyer and seller of natural gas and the largest electricity marketer in the United States. It also marketed coal, pulp, paper, plastics, metals and fiber-optic bandwidth.
One likely focus of the Justice Department investigation: Possible fraud based on Enron’s heavy reliance on off-balance-sheet partnerships that took on Enron debt. The partnerships masked Enron’s financial problems and left its credit ratings healthy so it could obtain the cash and credit crucial to running its trading business. The Houston-based company went bankrupt after its credit collapsed and its main rival, Dynegy Inc., backed out of an $8.4 billion buyout plan late last year. Just a year ago, stock of the nation’s largest buyer and seller of natural gas traded at $85 per share. Today, it is less than $1.

The company played a key role earlier this year when a White House task force met with business executives and other interest to fashion an energy policy. Kenneth L. Lay, the chairman, has close ties to the president, as he did with his father, former President Bush. Last week, the president said, “I think the life savings’ issue is something we need to look into. The government will be looking into this.” The news of the criminal investigation comes amid questions about the White House’s dealings with Enron, whose executives contributed heavily to President Bush’s election campaign.

The White House has acknowledged that Enron representatives met six times with Vice President Dick Cheney or his aides on energy issues last year, most recently in mid-October just before the investing public realized the company was heading for disaster. The vice president’s office said the last Enron meeting with a Cheney aide was October 10, 2002, just six days before the first in a series of public admissions by the company about its true financial condition that sent it careening into bankruptcy court. Enron’s financial position wasn’t discussed in any of the meetings, vice presidential counsel David Addington insisted in a letter.

Answers to End-of-Chapter Discussion Questions

1. Dr. Martin Luther King, Jr., said, “As long as there is poverty in the world, I can never be rich.... As long as diseases are rampant, I can never be healthy.... I can never be what I ought to be until you are what you ought to be.” Discuss this quote with respect to the material in this chapter. Would this be true for corporations, too?

Dr. King subscribed to the justice approach of ethics. Moral decisions must be based on standards of equity, fairness, and impartiality. Distributive justice, which maintains that different treatment of people not be based on arbitrary characteristics such as race, fits with Dr. King’s statement. Moreover, he seems to have felt that compensatory justice should be used in the form of affirmative action programs to compensate minorities for past injustices. How well this approach applies to corporations depends on the values of those running the corporations. However, most corporations subscribe to competitive values and would probably not agree with this philosophy.
2. *Environmentalists are trying to pass laws for oil spills that would remove all liability limits for the oil companies. This would punish corporations financially. Is this the best way to influence companies to be socially responsible?*

If liability limits were removed, oil companies would seek insurance protection. Insurance rates would then rise to compensate for this high risk. Oil companies would in turn raise prices, which the public would pay at the pump. It seems that the public will have to pay either way. Perhaps a better approach can be used to raise the level of social responsibility of oil companies. However, society must protect itself if the oil companies do not respond. Legislative action may have to be used to protect the environment since short-term profits are usually used as part of the individualism approach or the utilitarian approach by oil companies.

3. *Compare and contrast the utilitarian approach with the moral-rights approach to ethical decision making. Which do you believe is the best for managers to follow? Why?*

The utilitarian approach holds that moral behaviors produce the greatest good for the greatest number. The moral-rights approach asserts that human beings have fundamental rights and liberties that cannot be taken away by an individual’s decision. Decisions using the utilitarian approach consider the effect of each alternative on all parties and choose the one that optimizes satisfaction for the greatest number of people. The moral-rights approach says that the best decision is the one that best maintains the rights of the people affected by it. Students will have varied opinions on which approach a manager should follow. A case could be made for either approach, although the moral-rights approach probably provides the best legal protection for the manager.

4. *Imagine yourself in a situation of being encouraged to inflate your expense account. Do you think your choice would be most affected by your individual moral development or by the cultural values of the company for which you worked? Explain.*

While most students will probably want to answer that they would be most affected by their individual moral development, this may be an idealistic exaggeration. As pointed out by the text, most managers have not advanced beyond the conventional level where one feels that good behavior is living up to what is expected by others and the social system. Many are still on the preconventional level and would act in accordance with their own self-interest. Persons on both of these levels would probably go ahead and inflate their expense accounts. Only persons on the principled level would resist the pressure and not inflate the expense account if they felt it was ethically wrong.

5. *Is it socially responsible for organizations to undertake political activity or join with others in a trade association to influence the government? Discuss.*
This question is meant to stimulate student discussion, and there is no single correct answer. Generally speaking, most students will probably agree that it is socially responsible for organizations to undertake political activities. The question is whether organizations should sit back and passively adapt to the external environment or whether they should be assertive and make changes to control the external environment. Political activities and trade associations are attempts to control the external environment to reduce uncertainty and obtain necessary resources. Political activities do not violate the economic, legal, or ethical responsibilities of the organization. Unless the organization is breaking laws, bribing officials, or doing some other inappropriate behavior, it may make its views known and attempt to move in an appropriate direction. An organization unwilling to be assertive with respect to the external environment may ultimately lose out to competitors.

6. The criteria of corporate social responsibility suggest that economic responsibilities are of the greatest magnitude, followed by legal, ethical, and discretionary responsibilities. How do these four types of responsibility relate to corporate responses to social demands? Discuss.

The four types of corporate responses are obstructive, defensive, accommodative, and proactive. An obstructive response denies all responsibility for a social claim against the organization. A defensive response admits to some errors—the organization will defend itself but will not obstruct justice. An accommodative response means that the organization will try to meet whatever legal or ethical responsibilities confront it. A proactive response means that firms go beyond the social demands made upon them to find ways to help society.

In a general sense, the four social responses relate to the attitudes reflected in the four types of responsibilities. An organization that takes a purely economic perspective on social responsibility is more likely to use an obstructive response when a social issue arises. An organization that accepts legal responsibility will tend to use a defensive response. An organization that operates under an accommodative responsibility framework will tend to use an accommodative response to meet social demands. Finally, an organization that pursues discretionary ethical responsibilities will tend to use a proactive response for specific social issues. Thus, the type of underlying responsibility perspective the organization uses to deal with the environment will tend to be associated with the type of response the organization makes to specific social demands on it.

7. From where do managers derive ethical values? What can managers do to help define ethical standards for the corporation?

Ethical values typically derive from personal ethics, corporate ethics, or professional ethics. Personal ethics is adapted from managers’ individual values, which may reflect religious and family background as well as personal attitudes. Corporate ethics derives from the corporation’s values and culture. Certain things may be valued in one company and not valued in another because of cultural norms. Professional ethics is defined by professional occupational groups to which
organization members may belong, such as the American Institute of Certified Public Accountants.

Managers can help define ethical standards for the company by developing a code of ethics. The code of ethics is a formal, written statement of the company’s position regarding social issues. The code of ethics can be distributed to employees. Another technique is to appoint an ethics committee or an ethical advocate. An ethics committee can deal with social responsibility issues and provide rulings on questionable conduct. An ethical advocate acts as the organization’s conscience, pointing out actual or potential failures of social responsibility. The ethics committee and ethical advocates serve to signal corporate values to employees.

8. **Have you ever experienced an ethical dilemma? Evaluate the dilemma with respect to its impact on other people.**

This question was designed to stimulate student discussion. It leads to an examination of the underlying nature of ethics and an appreciation that unethical decisions tend to exploit or take advantage of others. When the manager confronts a true ethical dilemma, either choice may result in harm to others. Students are often able to provide examples of situations in which someone is hurt either way. Typically the most ethically responsible choice is the one that does the least damage.

9. **Lincoln Electric considers customers and employees to be more important stakeholders than shareholders. Is it appropriate for management to define some stakeholders as more important than others? Should all stakeholders be considered equal?**

For an organization to succeed, its managers must define goals and specify activity that will help the organization achieve them. In the pursuit of its strategies and goals, managers must make choices. In a noncompetitive world, all stakeholders might be considered equal. In a capitalistic economy, the manager’s responsibility is to define which stakeholders are most valued. This does not mean that low-ranking stakeholders will be exploited; it simply means that some stakeholders are more instrumental in helping the organization attain its goals. Indeed, the definition of ethical behavior is that organizations should treat individuals equally except when differences are relevant to goals and tasks. The treatment of individuals should not be capricious, but should help the organization accomplish its goals. To expect organizations to treat all stakeholders equally is not reasonable.

10. **Do you think a code of ethics combined with an ethics committee would be more effective than leadership for implementing ethical behavior? Discuss.**

A code of ethics combined with an ethics committee does tend to be more effective than leadership. The code of ethics communicates to everyone within the organization the boundaries within which they should behave and the values for which the organization stands. An ethics committee provides an outlet through which questionable activities can be surfaced and discussed, and hence provides guidance to organization members. The code of ethics and ethics committee are an
effective way to define and communicate the organization’s values both inside and outside the organization. Such an arrangement formalizes and clarifies ethics. It is not subject to interpretation. However, leadership can also achieve much. Of course, the ideal is to use both methods.

Teaching Note for Experiential Exercise

Ethical Work Climates

Have students complete the self-examination of an Ethical Work Climates. Note a range follows in the text of a very positive ethical climate of above 40 to a very poor climate of below 20. Discuss with class Ethical changes that they would make as a practicing manager. A teaching suggestion is to discuss the four approaches to ethical dilemmas: utilitarian approach, individualism approach, moral-rights approach, and justice approach.

Teaching Note for Ethical Dilemma

1. Use the guidelines in the Manager’s Shoptalk: Guidelines for Ethical Decision Making to determine the appropriate behavior in these cases. Do you have all the information you need to make an ethical decision? How would family and friends react to each alternative if you were in these situations?

Students are encouraged to review the list of seven guideline questions in the Manager’s Shoptalk box and apply them to each ethical situation in the case example. Through discussion, students may ultimately decide that one course of action is better than another. The guideline questions also lead to an understanding that, in a true ethical dilemma, more information can be acquired that the limited data available in a case presentation. Moreover, knowing that family or friends may learn about real-life actions sometimes causes people to undertake different behavior. Through this type of analysis the first and the third ethical dilemmas are probably the most difficult to resolve. Suggested alternatives are number 1 (d), number 2 (c), number 3 (c), number 4 (d), number 5 (d), and number 6 (c).

2. Which approach to ethical decision-making—utilitarian, individualism, justice, or moral rights—seems most appropriate for handling these situations?

Since this question asks for an opinion, the answers will vary. It should help students to see the differences in the four approaches. Students may be divided between individualism and the justice approach for the first question regarding the employee with AIDS, taking into account either the individual’s best long-term interest or the argument for equity, fairness, and impartiality. Because question two affects everyone in the department, students may easily select the utilitarian approach as the appropriate response. In situation three, concerns for the tragic personal circumstances of the employee will lead most students to select individualism, while question four may lean toward individualism in order to assist a coworker in facing
the truth. Number five again addresses concerns for the greatest good for the greatest number, but some students may argue for the moral rights approach because individual rate payers have rights which can’t be taken away or ignored by company actions. Situation six may be the most difficult for students because two companies are involved, although fairness (the justice approach) may carry the argument.

**Surf the Net**

1. **Social Responsibility.** Students may select any number of companies and submit to professor.

2. **Code of Ethics.** Any number of companies or professional societies could be selected. One could select alphabetically the code of ethics presented as:

   **American Society of Agricultural Engineers.**

   **CODE OF ETHICS OF ENGINEERS**
   **THE FUNDAMENTAL PRINCIPLES**

   Engineers uphold and advance the integrity, honor and dignity of the engineering profession by:
   
   I. using their knowledge and skill for the enhancement of human welfare;
   
   II. being honest and impartial, and serving with fidelity the public, their employers and clients;
   
   III. striving to increase the competence and prestige of the engineering profession; and
   
   IV. supporting the professional and technical societies of their disciplines.

   **Avalon Kennel Club**

   **Code of Ethics**

   Members shall abide by and uphold the principles of the Constitution and By-laws of the Avalon Kennel Club (and those of the Canadian Kennel Club where applicable) when engaged in the normal course of caring for, breeding, selling, exhibiting and/or judging purebred dogs.

   Members shall strive to gain respect for their participation and that of their fellow members on the foregoing activities and make the best possible contribution to the improvement of the quality, temperament, health and welfare of purebred dogs at all levels.
Members shall not engage in the indiscriminate breeding, buying or selling of dogs that are not purebred, either as principal, agent, intermediary or otherwise. A member becoming engaged in any of these practices shall automatically forfeit membership.

Members shall keep their dogs in clean, healthy environments and provide health protection for them (ie. worming, inoculating and necessary veterinary care).

**Akita Action Association**

**Code of Ethics**

When engaged in the course of caring for, breeding, selling, exhibiting and/or judging purebred dogs, members shall:

1. Abide by and uphold the principles of the Constitution and By-Laws of the Akita Action Association and The Canadian Kennel Club;
2. Be responsible owners and keep their dogs in a clean, healthy environment, provide good nutrition, proper care, and health protection for them through worming, inoculations and necessary veterinary care. No animals in his/her care shall be subjected to any abuse or cruelty;
3. Follow the rules of good sportsmanship and strive to gain respect for participation in all dog related activities;
4. Keep well informed in the field of genetics and strive to eliminate hereditary defects from the breed. Prior to any breeding, the dogs must be certified clear of hip displayasia and eye problems;
5. Carefully analyze the conformation, temperament, and pedigrees of the prospective sire and dam before entering into a breeding agreement or breeding his/her own dogs, and refuse the mating if, in his/her opinion, it will not be in the best interest of the breed,
6. Maintain accurate and complete pedigrees, breeding records, and medical records of their dogs.
7. Strive to contribute to the improvement of the quality, temperament, health and welfare of purebred dogs at all levels;
8. Not engage in the breeding or selling of dogs which are not purebred, either as a principal, agent, intermediary or otherwise. Not sell dogs to pet shops, commercial brokers or dealers. Not give away or donate for raffles and prizes any dog, no matter how charitable the cause. Upon engaging in any of these practices automatically forfeit membership;
9. Stand behind the quality and condition of their stock. Upon selling dogs or puppies which he/she knows to have a physical condition or serious deviation from the standard which indicates that the breeding of the animal would be detrimental to the welfare of the breed will so inform the buyer, and the sale will be made accompanied by a Canadian Kennel Club non-breeding agreement.
10. Explain to all prospective Akita purchasers the advantages and the disadvantages of ownership.
11. Comply with the provisions of the Animal Pedigree Act and the By-Laws of The Canadian Kennel Club in respect to litter registration and transfers of ownership. In comparison of the three different ethical codes for each profession, the codes can be distinguished and separated from one another. As an employee by understanding the code of ethics the proper behavior pattern should be practiced and adhered to in performing ones job.

3. **Ethical Structures.** An ethical summary is developed for Lockheed Martin and is based on the following six principles.
   - **Honesty:** to be truthful in all our endeavors; to be honest and forthright with one another and with our customers, communities, suppliers, and shareholders.
   - **Integrity:** to say what we mean, to deliver what we promise, and to stand for what is right.
   - **Respect:** to treat one another with dignity and fairness, appreciating the diversity of our workforce and the uniqueness of each employee.
   - **Trust:** to build confidence through teamwork and open, candid communication.
   - **Responsibility:** to speak up - without fear of retribution - and report concerns in the workplace, including violations of laws, regulations and company policies, and seek clarification and guidance whenever there is doubt.
   - **Citizenship:** to obey all the laws of the United States and the other countries in which we do business and to do our part to make the communities in which we live better.

**Case of Critical Analysis Solution.**

**Colt 45 and the Ad Hoc Group Against Crime**

1. *Are companies like Colt 45 and Philip Morris acting in an ethical and socially responsible way? What criteria of social responsibility are these companies following?*

   There is no right or wrong answer to this question. As with the ethical dilemma, you may want to encourage students to pretend they are a manager at Colt 45 and refer to the list of guidelines in the Manager’s Shoptalk: Guidelines for Ethical Decision Making. Some students could easily argue that the donations do good in these communities that far outweighs the damage caused by alcohol and tobacco, and in fact, people are going to smoke and drink anyway. On the other hand, others may take the stand that donations are clearly a way to promote alcohol and tobacco consumption and that these companies are being ethically and socially irresponsible. Also, opinions on what criteria of social responsibility these companies are following will vary. Students could argue for either economic or ethical criteria. Discretionary responsibility is not a good choice because there clearly is a payback to the company.

2. *Is the Ad Hoc Group Against Crime being socially responsible by accepting this money? Should this group take a symbolic stand against alcohol?*
This is a tough one, again with no right or wrong answers. Many non-profit organizations, particularly minority organizations operating in poor neighborhoods, often have difficulty raising funds and feel that they must accept donations wherever they can get them. Asking students whether such organizations should take a symbolic stand against alcohol, tobacco, gambling, or other “vices” should provoke a lively discussion. You might also ask students to discuss Alvin Brooks’ statement that if alcohol companies “are taking something away from the community, [they] are going to have to give something back.”

3. *Can you think of more socially responsible ways Colt 45 might contribute to minority communities?*

The simplest answer to this question is for Colt 45 to make an outright donation to the organization that is not connected in any way to sales of their products. Students may also discuss ideas such as setting up programs that prevent alcohol abuse or promote responsible drinking; programs aimed at building family relationships; programs to stop teenage smoking; or programs that deal with problems often caused by alcohol abuse—homelessness, violence, etc. You may also want to ask students whether they think accepting money from alcohol and tobacco companies is “right” under any circumstances.