Deciding how socially responsible an organization needs to be is just one example of the complicated types of ethical and social responsibility issues that managers, such as Blake Mycoskie, may have to cope with as they plan, organize, lead, and control. As managers manage, these issues can and do influence their actions.

What Is Social Responsibility?

By using digital technology and file-sharing Web sites, music and video users all over the world often obtain and share many of their favorite recordings for free. Large global corporations lower their costs by outsourcing to countries where human rights are not a high priority and justify it by saying they're bringing in jobs and helping strengthen the local economies. Businesses facing a drastically changed economic environment offer employees reduced hours and early retirement packages. Are these companies being socially responsible? Managers regularly face decisions that have a dimension of social responsibility in areas such as employee relations, philanthropy, pricing, resource conservation, product quality and safety, and doing business in countries that devalue human rights. What does it mean to be socially responsible?

From Obligations to Responsiveness to Responsibility

The concept of *social responsibility* has been described in different ways. For instance, it's been called "profit making only," "going beyond profit making," "any discretionary corporate activity intended to further social welfare," and "improving social or environmental conditions."[2] We can understand it better if we first compare it to two similar concepts: social obligation and social responsiveness.[3] **Social obligation** is when a firm engages in social actions because of its obligation to meet certain economic and legal responsibilities. The organization does what it's obligated to do and nothing more. This idea reflects the classical view of social responsibility, which says that management's only social responsibility is to maximize profits. The most outspoken advocate of this approach is economist and Nobel laureate Milton Friedman. He argued that managers' primary responsibility is to operate the business in the best interests of the stockholders, whose primary concerns are financial.[4] He also argued that when managers decide to spend the organization's resources for "social good," they add to the costs of doing business, which have to be passed on to consumers through higher prices or absorbed by stockholders through smaller dividends. You need to understand that Friedman doesn't say that organizations shouldn't be socially responsible. But his interpretation of social responsibility is to maximize profits for stockholders.

The other two concepts—social responsiveness and social responsibility—reflect the socioeconomic view, which says that managers' social responsibilities go beyond making profits to include protecting and improving society's welfare. This view is based on the belief that corporations are *not* independent entities responsible only to stockholders, but have an obligation to the larger society. Organizations around the world have embraced this view as shown by a survey of global executives in which 84 percent said that companies must balance obligations to shareholders with obligations to the public good.[5] But how do these two concepts differ?

Social responsiveness is when a company engages in social actions in response to some popular social need. Managers are guided by social norms and values and make practical, market-oriented decisions about their actions.[6] For instance, Ford Motor Company became the first automaker to endorse a federal ban on sending text messages while driving. A company spokesperson said that, "The most complete and most recent research shows that activity that draws drivers' eyes away from the road for an extended period while driving, such as text messaging, substantially increases the risk of accidents."[7] By supporting this ban, company managers "responded" to what they felt was an important social need. When the disastrous earthquake hit Haiti in January 2010, many companies responded to the immense needs in that region. For instance, UPS has a company-wide policy that urges employees to volunteer during natural disasters and other crises. In support of this policy, UPS maintains a 20-person Logistics Emergency Team in Asia, Europe, and the Americas that's trained in humanitarian relief.[8]

A socially *responsible* organization views things differently. It goes beyond what it's obligated to do or chooses to do because of some popular social need and does what it can to help improve society because it's the right thing to do. We define **social responsibility** as a business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society.[9] Our definition assumes that a business obeys the law and cares for its stockholders, but adds an ethical imperative to do those things that make society better and not to do those that make it worse. A socially responsible organization does what is right because it feels it has an ethical responsibility to do so. For example, Abt Electronics in Glenview, Illinois, would be described as socially responsible according to our definition. As one of the largest single-store electronics retailers in the United States, it responded to soaring energy costs and environmental concerns by shutting off lights more frequently and reducing air conditioning and heating. However, an Abt family member said, "These actions weren't just about costs, but about doing the right thing. We don't do everything just because of money."[10]

So, how should we view an organization's social actions? A U.S. business that meets federal pollution control standards or that doesn't discriminate against employees over the age of 40 in job promotion decisions is meeting its social obligation because laws mandate these actions. However, when it provides on-site child-care facilities for employees or packages products using recycled paper, it's being socially responsive. Why? Working parents and environmentalists have voiced these social concerns and demanded such actions.

For many businesses, their social actions are better viewed as being socially responsive than socially responsible (at least according to our definition). However, such actions are still good for society. For example, Walmart sponsored a program to address a serious social problem—hunger. Customers donated money to America's Second Harvest by purchasing puzzle pieces and Walmart matched the first $5 million raised. As part of this program, the company ran advertisements in major newspapers showing the word H_NGER and the tag line, "The problem can't be solved without You."[11]

Should Organizations Be Socially Involved?

Other than meeting their social obligations (which they *must* do), should organizations be socially involved? One way to look at this question is by examining arguments for and against social involvement. Several points are outlined in Exhibit 5-1.[12]

Numerous studies have examined whether social involvement affects a company's economic performance.[13] Although most found a small positive relationship, no generalizable conclusions can be made because these studies have shown that relationship is affected by various contextual factors such as firm size, industry, economic conditions, and regulatory environment.[14] Another concern was causation. If a study showed that social involvement and economic performance were positively related, this correlation didn't necessarily mean that social involvement *caused* higher economic performance. It could simply mean that high profits afforded companies the "luxury" of being socially involved.[15] Such methodological concerns can't be taken lightly. In fact, one study found that if the flawed empirical analyses in these studies were "corrected," social responsibility had a neutral impact on a company's financial performance.[16] Another found that participating in social issues not related to the organization's primary stakeholders was negatively associated with shareholder value.[17] A re-analysis of several studies concluded that managers can afford to be (and should be) socially responsible.[18]

For	Against
Public expectations Public opinion now supports businesses pursuing economic and social goals.	**Violation of profit maximization** Business is being socially responsible only when it pursues its economic interests.
Long-run profits Socially responsible companies tend to have more secure long-run profits.	**Dilution of purpose** Pursuing social goals dilutes business's primary purpose—economic productivity.
Ethical obligation Businesses should be socially responsible because responsible actions are the right thing to do.	**Costs** Many socially responsible actions do not cover their costs and someone must pay those costs.
Public image Businesses can create a favorable public image by pursuing social goals.	**Too much power** Businesses have a lot of power already and if they pursue social goals they will have even more.
Better environment Business involvement can help solve difficult social problems.	**Lack of skills** Business leaders lack the necessary skills to address social issues.
Discouragement of further governmental regulation By becoming socially responsible, businesses can expect less government regulation.	**Lack of accountability** There are no direct lines of accountability for social actions.
Balance of responsibility and power Businesses have a lot of power and an equally large amount of responsibility is needed to balance against that power.	
Stockholder interests Social responsibility will improve a business's stock price in the long run.	
Possession of resources Businesses have the resources to support public and charitable projects that need assistance.	
Superiority of prevention over cures Businesses should address social problems before they become serious and costly to correct.	

Another way to view social involvement and economic performance is by looking at socially responsible investing (SRI) funds, which provide a way for individual investors to support socially responsible companies. (You can find a list of SRI funds at [www.socialfunds.com].) Typically, these funds use some type of **social screening**; that is, they apply social and environmental criteria to investment decisions. For instance, SRI funds usually will not invest in companies that are involved in liquor, gambling, tobacco, nuclear power, weapons, price fixing, fraud or in companies that have poor product safety, employee relations, and environmental track records. The number of socially screened mutual funds has grown from 55 to 260 and assets in these funds have grown to more than $2.7 trillion—about 11 percent of total assets in managed funds in the United States.[19] But more important than the total amount invested in these funds is that the Social Investment Forum reports that the performance of most SRI funds is comparable to that of non-SRI funds.[20]

So, what can we conclude about social involvement and economic performance? It appears that a company's social actions *don't hurt* its economic performance. Given political and societal pressures to be socially involved, managers probably need to take social issues and goals into consideration as they plan, organize, lead, and control.

Green Management and Sustainability

Coca-Cola, the world's largest soft drink company, announced that 100 percent of its new vending machines and coolers would be hydrofluorocarbon-free (HFC-free) by 2015. This initiative alone would have the same effect on global carbon emissions as taking 11 million cars off the road for a single year.[21] The Fairmont Hotel chain has generated a lot of buzz over its decision to set up rooftop beehives to try and help strengthen the population of honeybees, which have been mysteriously abandoning their hives and dying off by the millions worldwide. This Colony Collapse Disorder could have potentially disastrous consequences since one-third of the food we eat comes from plants that depend on bee pollination. At Toronto's Fairmont Royal York, six hives are home to some 360,000 bees that forage in and around the city *and* produce a supply of award-winning honey.[22] In 2004, top executives at General Electric Company voted against CEO Jeffrey Immelt's plan for a green business initiative. However, Immelt refused to take "no" for an answer and today that initiative, called Ecomagination, is one of the most widely recognized corporate green programs. It led to $100 million in cost savings and reduced the company's greenhouse emissions by 30 percent. And the program fostered the development of 80 new products and services that generate some $17 billion in annual revenue. Immelt said, "Going green has been 10 times better than I ever imagined."[23] Being green is in!

Until the late 1960s, few people (and organizations) paid attention to the environmental consequences of their decisions and actions. Although some groups were concerned with conserving natural resources, about the only reference to saving the environment was the ubiquitous printed request "Please Don't Litter." However, a number of environmental disasters brought a new spirit of environmentalism to individuals, groups, and organizations. Increasingly, managers have begun to consider the impact of their organization on the natural environment, which we call **green management**. What do managers need to know about going green?

How Organizations Go Green

Managers and organizations can do many things to protect and preserve the natural environment.[24] Some do no more than what is required by law—that is, they fulfill their social obligation. However, others have radically changed their products and production processes. For instance, Fiji Water is using renewable energy sources, preserving forests, and conserving water. Carpet-maker Mohawk Industries uses recycled plastic containers to produce fiber used in its carpets. Google and Intel initiated an effort to get computer makers and customers to adopt technologies that reduce energy consumption. Paris-based TOTAL, SA, one of the world's largest integrated oil companies, is going green by implementing tough new rules on oil tanker safety and working with groups such as Global Witness and Greenpeace. UPS, the world's largest package delivery company, has done several things—from retrofitting its aircraft with advanced technology and fuel-efficient engines to developing a computer network that efficiently dispatches its fleet of brown trucks to using alternative fuel to run those trucks. Although interesting, these examples don't tell us much about how organizations go green. One model uses the terms *shades of green* to describe the different environmental approaches that organizations may take.[25] (See Exhibit 5-2.)

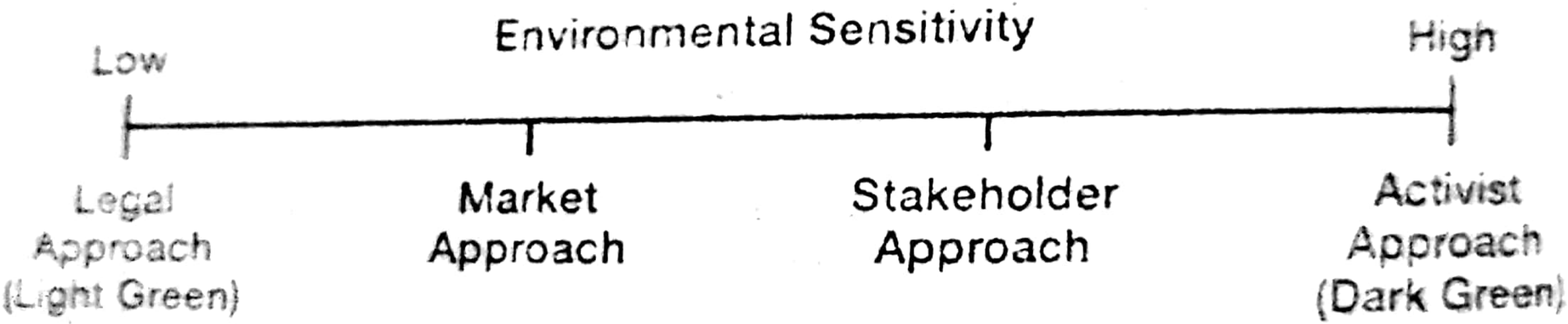
The first approach, the *legal (or light green) approach*, is simply doing what is required legally. In this approach, which illustrates social obligation, organizations exhibit little environmental sensitivity. They obey laws, rules, and regulations without legal challenge and that's the extent of their being green.

... to environproduct, no matter how ... earth." But nonetheless, he keeps doing what he does ...ing to do."

As an organization becomes more sensitive to e... mental issues, it may adopt the *market approach*, ... spond to environmental preferences of customers. Wh... customers demand in terms of environmentally fri... products will be what the organization provides. For example, DuPont developed ... type of herbicide that helped farmers around the world reduce their annual u... chemicals by more than 45 million pounds. By developing this product, the com... was responding to the demands of its customers (farmers) who wanted to minimiz... use of chemicals on their crops. This is a good example of social responsiveness, ... the next approach.

In the *stakeholder approach*, an organization works to meet the environmental dema... of multiple stakeholders such as employees, suppliers, or community. For instance, Hew... Packard has several corporate environmental programs in place for its supply chain (supp... ers), product design and product recycling (customers and society), and work operatio... (employees and community).

Finally, if an organization pursues an *activist* (*or dark green*) *approach*, it looks f... ways to protect the earth's natural resources. The activist approach reflects the highest d... gree of environmental sensitivity and illustrates social responsibility. For example, Belgia... company Ecover produces ecological cleaning products in a near-zero-emissions factory. This factory (the world's first ecological one) is an engineering marvel with a huge gras... roof that keeps things cool in summer and warm in winter and a water treatment system that runs on wind and solar energy. The company chose to build this facility because of its deep commitment to the environment.



Environmental Sensitivity
Low
High
Legal Approach (Light Green)
Market Approach
Stakeholder Approach
Activist Approach (Dark Green)

Evaluating Green Management Actions

As businesses become "greener," they often release detailed reports on their environmental performance. More than 1,300 companies around the globe voluntarily report their efforts in promoting environmental sustainability using the guidelines developed by the Global Reporting Initiative (GRI). These reports, which can be found on the GRI Web site [www.globalreporting.org], describe the numerous green actions of these organizations.

Another way that organizations show their commitment to being green is through pursuing standards developed by the nongovernmental International Organization for Standardization (ISO). Although ISO has developed more than 18,000 international standards, it's probably best known for its ISO 9000 (quality management) and ISO 14000 (environmental management) standards. Organizations that want to become ISO 14000 compliant must develop a total management system for meeting environmental challenges. In other words, it must minimize the effects of its activities on the environment and continually improve its environmental performance. If an organization can meet these standards, it can state that it's ISO 14000 compliant, an accomplishment that organizations in 155 countries have achieved.

One final way to evaluate a company's green actions is to use the Global 100 list of the most sustainable corporations in the world [www.global100.org].[27] To be named to this list, which is announced each year at the renowned World Economic Forum in Davos, Switzerland, a company has displayed a superior ability to effectively manage environmental and social factors. In 2010, the United Kingdom led the list with 21 Global 100 companies. The United States followed with 12, and both Australia and Canada had 9 companies on the list. Some companies on the 2010 list included Siemens (Germany), Pearson PLC (U.K.), Westpac Banking Corp. (Australia), Encana Corp. (Canada), and Starbucks (U.S.).

Managers and Ethical Behavior

One hundred fifty years. That was the maximum prison sentence handed to financier Bernard Madoff, who stole billions of dollars from his clients, by a U.S. district judge who called his crimes "evil." In Britain, which has been characterized by some critics as a "nanny state because of its purported high level of social control and surveillance," a controversy is brewing over the monitoring of garbage cans. Many local governments have installed monitoring chips in municipally distributed trash bans. These chips match cans with owners and can be used to track the weight of the bins, leading some critics to fear that the country is moving to a pay-as-you go system, which they believe will discriminate against large families. A government report **says that Iceland**, hit hard by both the global economic meltdown and a pesky volcano, was "victimized by politicians, bankers, and regulators who engaged in acts of extreme negligence."[28] When you hear about such behaviors—especially after the high-profile financial misconduct at companies such as Enron, Worldcom, Lehman Brothers, and others—you might conclude that businesses aren't ethical. Although that's not the case, managers—at all levels, in all areas, in all sizes, and in all kinds of organizations—do face ethical issues and dilemmas. For instance, is it ethical for a sales representative to bribe a purchasing agent as an inducement to buy? Would it make a difference if the bribe came out of the sales rep's commission? Is it ethical for someone to use a company car for private use? How about using company e-mail for personal correspondence or using the company phone to make personal phone calls? What if you managed an employee who worked all weekend on an emergency situation and you told him to take off two days sometime later and mark it down as "sick days" because your company had a clear policy that overtime would not be compensated for any reason?[29] Would that be okay? How will you handle such situations? As managers plan, organize, lead, and control, they must consider ethical dimensions.

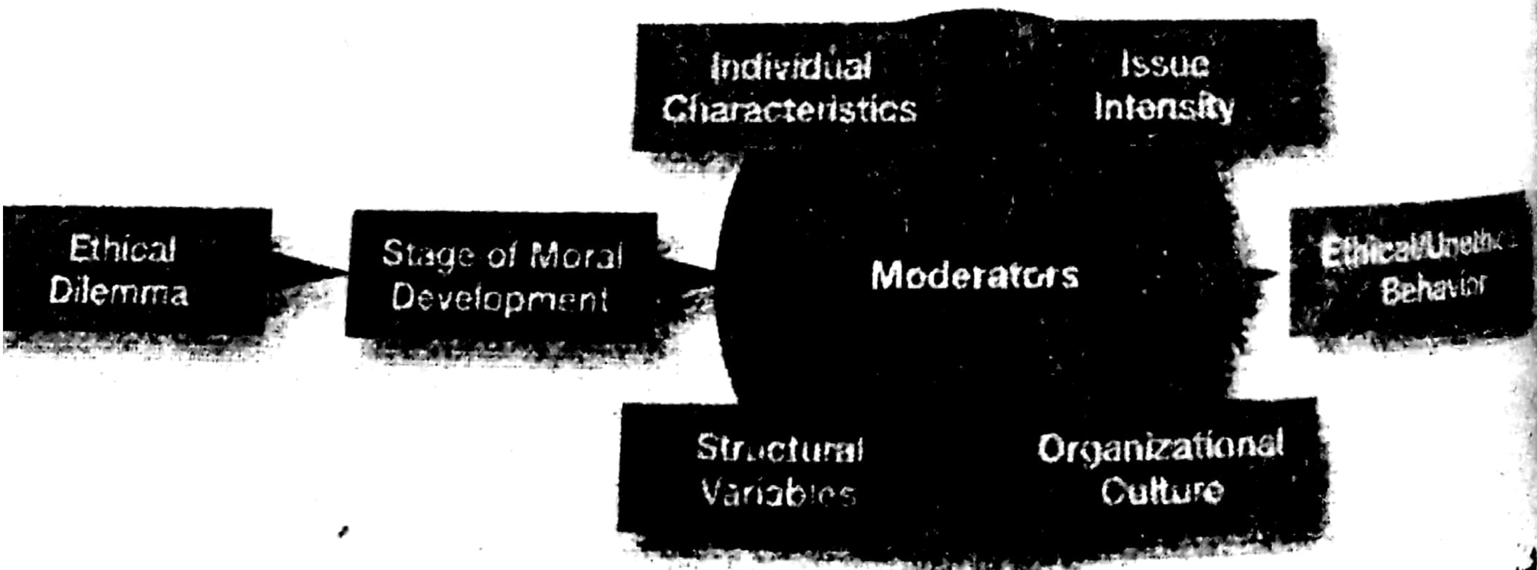
What do we mean by **ethics**? We're defining it as the principles, values, and beliefs that define right and wrong decisions and behavior.[30] Many decisions that managers make require them to consider both the process and who's affected by the result.[31] To better understand the ethical issues involved in such decisions, let's look at the factors that determine whether a person acts ethically or unethically.

Factors That Determine Ethical and Unethical Behavior

Whether someone behaves ethically or unethically when faced with an ethical dilemma is influenced by several things: his or her stage of moral development and other moderating variables including individual characteristics, the organization's structural design, the organization's culture, and the intensity of the ethical issue. (See Exhibit 5-3.) People who lack a strong moral sense are much less likely to do the wrong things if they're constrained by rules, policies, job descriptions, or strong cultural norms that disapprove of such behaviors. Conversely, intensely moral individuals can be corrupted by an organizational structure and culture that permits or encourages unethical practices. Let's look more closely at these factors.

STAGE OF MORAL DEVELOPMENT. Research divides moral development into three levels, each having two stages.[32] At each successive stage, an individual's moral judgment becomes less dependent on outside influences and more internalized.

At the first level, the *preconventional* level, a person's choice between right or wrong is based on personal consequences from outside sources, such as physical punishment, reward, or exchange of favors. At the second level, the *conventional* level, ethical decisions rely on maintaining expected standards and living up to the expectations of others. At the *principled* level, individuals define moral values apart from the authority of the groups to which they belong or society in general. The three levels and six stages are described in Exhibit 5-4.



Level	Description of Stage
Principled	6. Following self-chosen ethical principles even if they violate the law
	5. Valuing rights of others and upholding absolute values and rights regardless of the majority's opinion
Conventional	4. Maintaining conventional order by fulfilling obligations to which you have agreed
	3. Living up to what is expected by people close to you
Preconventional	2. Following rules only when doing so is in your immediate interest
	1. Sticking to rules to avoid physical punishment

What can we conclude about moral development?[33] First, people proceed through the six stages sequentially. Second, there is no guarantee of continued moral development. Third, the majority of adults are at Stage 4: They're limited to obeying the rules and will be inclined to behave ethically, although for different reasons. A manager at stage 3 is likely to make decisions based on peer approval; a manager at stage 4 will try to be a "good corporate citizen" by making decisions that respect the organization's rules and procedures; and a stage 5 manager is likely to challenge organizational practices that he or she believes to be wrong.

INDIVIDUAL CHARACTERISTICS. Two individual characteristics—values and personality—play a role in determining whether a person behaves ethically. Each person comes to an organization with a relatively entrenched set of personal **values**, which represent basic convictions about what is right and wrong. Our values develop from a young age based on what we see and hear from parents, teachers, friends, and others. Thus, employees in the same organization often possess very different values.[34] Although *values* and *stage of moral development* may seem similar, they're not. Values are broad and cover a wide range of issues; the stage of moral development is a measure of independence from outside influences.

Two personality variables have been found to influence an individual's actions according to his or her beliefs about what is right or wrong: ego strength and locus of control. **Ego strength** measures the strength of a person's convictions. People with high ego strength are likely to resist impulses to act unethically and instead follow their convictions. That is, individuals high in ego strength are more likely to do what they think is right and be more consistent in their moral judgments and actions than those with low ego strength.

Locus of control is the degree to which people believe they control their own fate. People with an *internal* locus of control believe they control their own destinies. They're more likely to take responsibility for consequences and rely on their own internal standards of right and wrong to guide their behavior. They're also more likely to be consistent in their moral judgments and actions. People with an *external* locus believe what happens to them is due to luck or chance. They're less likely to take personal responsibility for the consequences of their behavior and more likely to rely on external forces.[35]

STRUCTURAL VARIABLES. An organization's structural design can influence whether employees behave ethically. Those structures that minimize ambiguity and uncertainty with formal rules and regulations and those that continuously remind employees of what is ethical are more likely to encourage ethical behavior. Other structural variables that influence ethical choices include goals, performance appraisal systems, and reward allocation procedures.

Although many organizations use goals to guide and motivate employees, those goals can create some unexpected problems. One study found that people who don't reach set goals are more likely to engage in unethical behavior, even if they do or don't have economic incentives to do so. The researchers concluded that "goal setting can lead to unethical behavior."[36] Examples of such behaviors abound—from companies shipping unfinished products just to reach sales goals or "managing earnings" to meet financial analysts' expectations, to schools excluding certain groups of students when reporting standardized test scores to make their "pass" rate look better.[37]

An organization's performance appraisal system also can influence ethical behavior. Some systems focus exclusively on outcomes, while others evaluate means as well as ends. When employees are evaluated only on outcomes, they may be pressured to do whatever is necessary to look good on the outcomes, and not be concerned with how they got those results. Research suggests that "success may serve to excuse unethical behaviors."[38] The danger of such thinking is that if managers are more lenient in correcting unethical behaviors of successful employees, other employees will model their behavior on what they see.

Closely related to the organization's appraisal system is how rewards are allocated. The more that rewards or punishment depend on specific goal outcomes, the more employees are pressured to do whatever they must to reach those goals, perhaps to the point of compromising their ethical standards.

ing their ethical ...

ORGANIZATION'S CULTURE. As Exhibit 5-3 showed, the content and strength of an organization's culture also influence ethical behavior.[40] We learned in Chapter 2 that an organization's culture consists of the shared organizational values. These values reflect what the organization stands for and what it believes in as well as create an environment that influences employee behavior ethically or unethically. When it comes to ethical behavior, a culture most likely to encourage high ethical standards is one that's high in risk tolerance, control, and conflict tolerance. Employees in such a culture are encouraged to be aggressive and innovative, are aware that unethical practices will be discovered, and feel free to openly challenge expectations they consider to be unrealistic or personally undesirable.

Because shared values can be powerful influences, many organizations are using **values-based management**, in which the organization's values guide employees in the way they do their jobs. For instance, Timberland is an example of a company using values-based management. With a simple statement, "Make It Better," employees at Timberland know what's expected and valued; that is, find ways to "make it better"—whether it's creating quality products for customers, performing community service activities, designing employee training programs, or figuring out ways to make the company's packaging more environmentally friendly. As CEO Jeffrey Swartz says on the company's Web site, "Everything we do at Timberland grows out of our relentless pursuit to find a way to make it better." At Corning, one of the core values guiding employee behavior is integrity. Employees are expected to work in ways that are honest, decent, and fair. Timberland and Corning aren't alone in their use of values-based management. A survey of global companies found that a large number (more than 89%) said they had a written corporate values statement.[41] This survey also found that most of the companies believed that their values influenced relationships and reputation, the top-performing companies consciously connected values with the way employees did their work, and top managers were important to reinforcing the importance of the values throughout the organization.

Thus, an organization's managers do play an important role here. They're responsible for creating an environment that encourages employees to embrace the culture and the desired values as they do their jobs. In fact, research shows that the behavior of managers is the single most important influence on an individual's decision to act ethically or unethically.[42] People look to see what those in authority are doing and use that as a benchmark for acceptable practices and expectations.

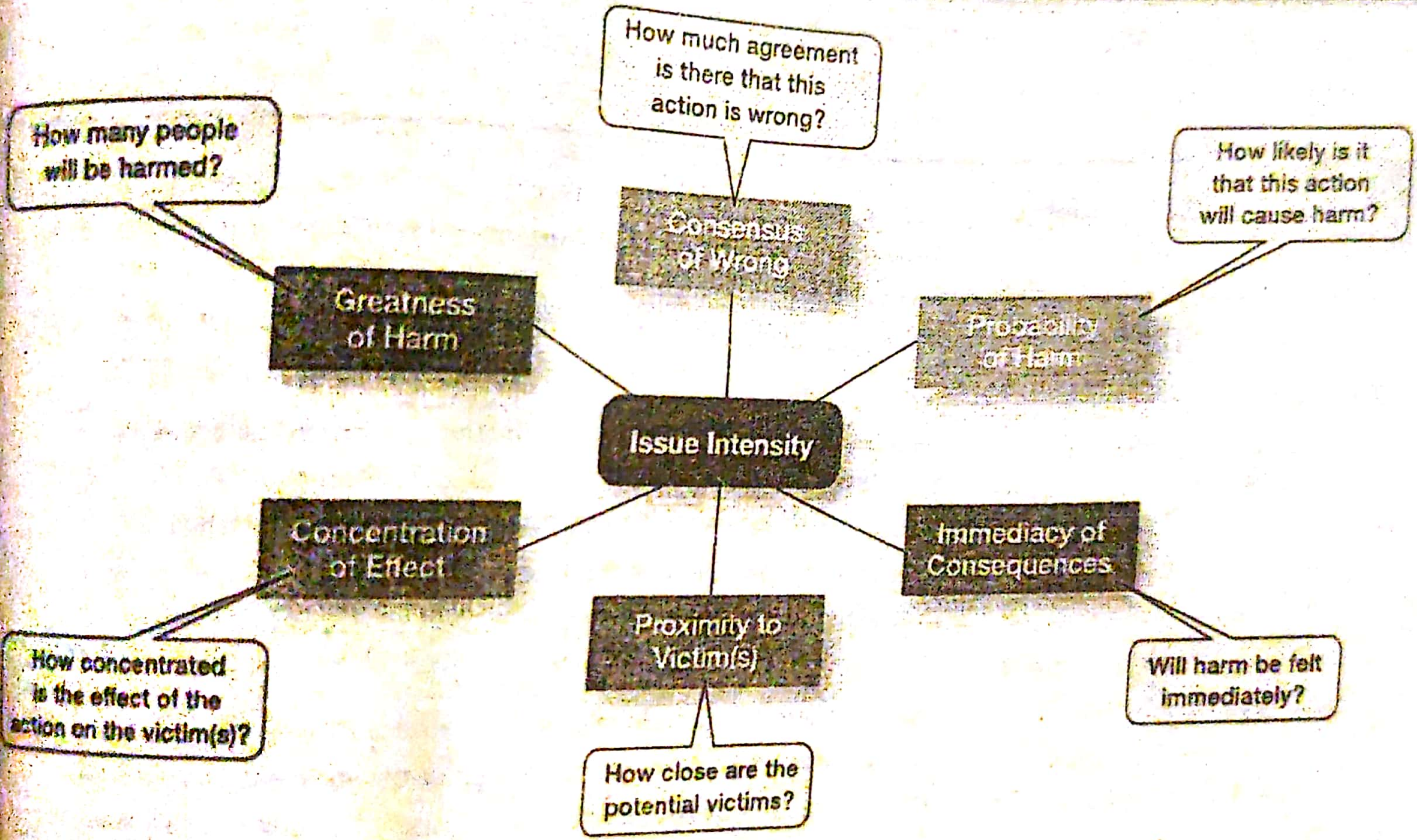
Finally, as we discussed in Chapter 2, a strong culture exerts ~~more~~ influence on employees than a weak one. If a culture is strong and supports high ethical standards, it has a powerful and positive influence on the decision to act ethically or unethically. For example, IBM has a strong culture that has long stressed ethical dealings with customers, employees, business partners, and communities.[43] To reinforce the importance of ethical behaviors, the company developed an explicitly detailed set of guidelines for business conduct and ethics. And the penalty for violating the guidelines: disciplinary actions including dismissal. IBM's managers continually reinforce the importance of ethical behavior and reinforce the fact that a person's actions and decisions are important to the way the organization is viewed.

ISSUE INTENSITY. A student who would never consider breaking into an instructor's office to steal an accounting exam doesn't think twice about asking a friend who took the same course from the same instructor last semester what questions were on an exam. Similarly, a manager might think nothing about taking home a few office supplies yet be highly concerned about the possible embezzlement of company funds. These examples illustrate the final factor that influences ethical behavior: the intensity of the ethical issue itself.[44]

As Exhibit 5-5 shows, six characteristics determine issue intensity or how important an ethical issue is to an individual: greatness of harm, consensus of wrong, probability of harm, immediacy of consequences, proximity to victim(s), and concentration of effect. These factors suggest that the larger the number of people harmed, the more agreement that the action is wrong, the greater the likelihood that the action will cause harm, the more immediately that the consequences of the action will be felt, the closer the person feels to the victim(s), and the more concentrated the effect of the action on the victim(s), the greater the issue intensity or importance. When an ethical issue is important, employees are more likely to behave ethically.

Ethics in an International Context

Are ethical standards universal? Although some common moral beliefs exist, social and cultural differences between countries are important factors that determine ethical and unethical



How much agreement is there that this action is wrong?
How many people will be harmed?
Consensus of Wrong
How likely is it that this action will cause harm?
Greatness of Harm
Probability of Harm
Issue Intensity
Concentration of Effect
Immediacy of Consequences
Proximity to Victim(s)
How concentrated is the effect of the action on the victim(s)?
Will harm be felt immediately?
How close are the potential victims?

behavior.[45] For example, the manager of a Mexican firm bribes several high-ranking government officials in Mexico City to secure a profitable government contract. Although this business practice is acceptable in Mexico, it's unethical (and illegal) in the United States.

Should Coca-Cola employees in Saudi Arabia adhere to U.S. ethical standards, or should they follow local standards of acceptable behavior? If Airbus (a European company) pays a "broker's fee" to an intermediary to get a major contract with a Middle Eastern airline, should Boeing be restricted from doing the same because such practices are considered improper in the United States? (Note: In the United Kingdom, the Law Commission, a governmental advisory body, has said that bribing officials in foreign countries should be a criminal offense. It said that claims of "it's local custom" should not be a reason for allowing it.[46]) Recently, British defense giant BAE, which has been the target of various bribery and corruption allegations, was ordered to "submit to the supervision of an ethics monitor and pay nearly $500 million to resolve the corruption allegations."[47]

In the case of payments to influence foreign officials or politicians, U.S. mangers are guided by the Foreign Corrupt Practices Act (FCPA), which makes it illegal to knowingly corrupt a foreign official. However, even this law doesn't always reduce ethical dilemmas to black and white. In some countries, government bureaucrat salaries are low because custom dictates that they receive small payments from those they serve. Payoffs to these bureaucrats "grease the machinery" and ensure that things get done. The FCPA does not expressly prohibit small payoffs to foreign government employees whose duties are primarily administrative or clerical *when* such payoffs are an accepted part of doing business in that country. Any action other than this is illegal. In 2009, the U.S. Department of Justice brought 11 FCPA enforcement actions against corporations and 33 against individuals.[48]

It's important for individual managers working in foreign cultures to recognize the social, cultural, and political-legal influences on what is appropriate and acceptable behavior.[49] And international businesses must clarify their ethical guidelines so that employees know what's expected of them while working in a foreign location, which adds another dimension to making ethical judgments.

Another guide to being ethical in international business is the Global Compact, which is a document created by the United Nations outlining principles for doing business globally in the areas of human rights, labor, the environment, and anticorruption. (See Exhibit 5-6.)

Human Rights

Principle 1:	Support and respect the protection of international human rights within their sphere of influence.

Human Rights

Principle 1:	Support and respect the protection of international human rights within their sphere of influence.
Principle 2:	Make sure business corporations are not complicit in human rights abuses.
Labor Standards	
Principle 3:	Freedom of association and the effective recognition of the right to collective bargaining.
Principle 4:	The elimination of all forms of forced and compulsory labor.
Principle 5:	The effective abolition of child labor.
Principle 6:	The elimination of discrimination in respect to employment and occupation.
Environment	
Principle 7:	Support a precautionary approach to environmental challenges.
Principle 8:	Undertake initiatives to promote greater environmental responsibility.
Principle 9:	Encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	
Principle 10:	Businesses should work against corruption in all its forms, including extortion and bribery.

Source: Courtesy of UN Global Compact.

Encouraging Ethical Behavior

5.4

LE Describe ... encour...

At a Senate hearing exploring the accusations that Wall Street firm Goldman Sachs deceived its clients during the housing-market meltdown, Arizona senator John McCain said, "I don't know if Goldman has done anything illegal, but there's no doubt their behavior was unethical."[52] You have to wonder what the firm's managers were thinking or doing while such ethically questionable decisions and actions were occurring.

Managers can do a number of things if they're serious about encouraging ethical behaviors—hire employees with high ethical standards, establish codes of ethics, lead by example, and so forth. By themselves, such actions won't have much of an impact. But if an organization has a comprehensive ethics program in place, it can potentially improve an organization's ethical climate. The key variable, however, is *potentially*. There are no guarantees that a well-designed ethics program will lead to the desired outcome. Sometimes corporate ethics programs are little more than public relations gestures that do little to influence managers and employees. For instance, Sears had a long history of encouraging ethical business practices through its corporate Office of Ethics and Business Practices. However, its ethics programs didn't stop managers from illegally trying to collect payments from bankrupt charge account holders or from routinely deceiving automotive service center customers into thinking they needed unnecessary repairs. Even Enron, often referred to as the "poster child" of corporate wrongdoing, outlined values in its final annual report that most would consider ethical—communication, respect, integrity, and excellence. Yet the way top managers behaved didn't reflect those values at all.[53] Let's look at some specific ways that managers can encourage ethical behavior and create a comprehensive ethics program.

Employee Selection

The selection process (interviews, tests, background checks, and so forth) should be viewed as an opportunity to learn about an individual's level of moral development, personal values, ego strength, and locus of control.[54] However, a carefully designed selection process isn't foolproof and, even under the best circumstances, individuals with questionable standards of right and wrong may be hired. Such an issue can be overcome if other ethics controls are in place.

Codes of Ethics and Decision Rules

George David, former CEO and chairman of Hartford, Connecticut-based United Technologies Corporation, believed in the power of a code of ethics. That's why UTC has always had one that was quite explicit and detailed. Employees know the behavioral expectations, especially when it comes to ethics. UBS AG, the Swiss bank, also has an explicit employee code crafted by CEO Oswald Grübel that bans staff from helping clients cheat on their taxes.[55] However, not all organizations have such explicit ethical guidelines.

Uncertainty about what is and is not ethical can be a problem for employees. A code of ethics, a formal statement of an organization's values and the ethical rules it expects employees to follow, is a popular choice for reducing that ambiguity. Research shows that 97 percent of organizations with more than 10,000 employees have a written code of ethics. Even in smaller organizations, nearly 93 percent have one.[56] And codes of ethics are becoming more popular globally. Research by the Institute for Global Ethics says that shared values such as honesty, fairness, respect, responsibility, and caring are pretty much universally embraced.[57] In addition, a survey of businesses in 22 countries found that 78 percent have formally stated ethics standards and codes of ethics; and more than 85 percent of *Fortune* Global 200 companies have a business code of ethics.[58]

What should a code of ethics look like? It should be specific enough to show employees the spirit in which they're supposed to do things yet loose enough to allow for freedom of judgment. A survey of companies' codes of ethics found their content tended to fall into three categories as shown in Exhibit 5-7.[59]

Unfortunately, codes of ethics may not work as well as we think they should. A survey of employees in U.S. businesses found that 49 percent of those surveyed had observed ethical or legal violations in the previous 12 months including such things as conflicts of interest, of employees in ... cal or legal violations in the p...

Cluster 1. Be a Dependable Organizational Citizen

1. Comply with safety, health, and security regulations.
2. Demonstrate courtesy, respect, honesty, and fairness.
3. Illegal drugs and alcohol at work are prohibited.
4. Manage personal finances well.
5. Exhibit good attendance and punctuality.
6. Follow directives of supervisors.
7. Do not use abusive language.
8. Dress in business attire.
9. Firearms at work are prohibited.

Cluster 2. Do Not Do Anything Unlawful or Improper That Will Harm the Organization

1. Conduct business in compliance with all laws.
2. Payments for unlawful purposes are prohibited.
3. Bribes are prohibited.
4. Avoid outside activities that impair duties.
5. Maintain confidentiality of records.
6. Comply with all antitrust and trade regulations.
7. Comply with all accounting rules and controls.
8. Do not use company property for personal benefit.
9. Employees are personally accountable for company funds.
10. Do not propagate false or misleading information.
11. Make decisions without regard for personal gain.

Cluster 3. Be Good to Customers

1. Convey true claims in product advertisements.
2. Perform assigned duties to the best of your ability.
3. Provide products and services of the highest quality.

Source: F. R. David, "An Empirical Study of Codes of Business Ethics: A Strategic Perspective," paper presented at the 48th Annual Academy of Management Conference, Anaheim, California, August 1988. Used with permission of Fred David.

Step 1: What is the **ethical dilemma**?

Step 2: Who are the **affected stakeholders**?

Step 3: What **personal**, **organizational**, and **external factors** are important in this decision?

Step 4: What are possible **alternatives**?

Step 5: What is my **decision** and how will I act on it?

EXHIBIT

A Proc...

Dilem...

abusive or intimidating behavior, and lying to employees. And 37 percent of those employees didn't report observed misconduct.[60] Does this mean that codes of ethics shouldn't be developed? No. However, in doing so, managers should use these suggestions:[61]

1. Organizational leaders should model appropriate behavior and reward those who act ethically.
2. All managers should continually reaffirm the importance of the ethics code and consistently discipline those who break it.
3. The organization's stakeholders (employees, customers, and so forth) should be considered as an ethics code is developed or improved.
4. Managers should communicate and reinforce the ethics code regularly.
5. Managers should use the five-step process (see Exhibit 5-8) to guide employees when faced with ethical dilemmas.

Leadership

In 2007, Peter Löscher was hired as CEO of German company Siemens to clean up a global bribery scandal that cost the company a record-setting $1.34 billion in fines. His approach: "Stick to your principles. Have a clear ethical north. Be trusted and be the role model of your company. . . . True leaders have a set of core values they publicly commit to and live by in good times and bad."[62] Doing business ethically requires a commitment from top managers. Why? Because they're the ones who uphold the shared values and set the cultural tone. They're role models in terms of both words and actions, though what they *do* is far more important than what they *say*. If top managers, for example, take company resources for their personal use, inflate their expense accounts, or give favored treatment to friends, they imply that such behavior is acceptable for all employees.

Top managers also set the tone by their reward and punishment practices. The choices of whom and what are rewarded with pay increases and promotions send a strong signal to employees. As we said earlier, when an employee is rewarded for achieving impressive results in an ethically questionable manner, it indicates to others that those ways are acceptable. When an employee does something unethical, managers must punish the offender and publicize the fact by making the outcome visible to everyone in the organization. This practice sends a message that doing wrong has a price and it's not in employees' best interests to act unethically!

Job Goals and Performance Appraisal

Employees in three Internal Revenue Service offices were found in the bathrooms flushing tax returns and other related documents down the toilets. When questioned, they openly admitted doing it, but offered an interesting explanation for their behavior. The employees' supervisors had been pressuring them to complete more work in less time. If the piles of tax returns weren't processed and moved off their desks more quickly, they were told their performance reviews and salary raises would be adversely affected. Frustrated by few resources and an overworked computer system, the employees decided to "flush away" the paperwork on their desks. Although these employees knew what they did was wrong, it illustrates how powerful unrealistic goals and performance appraisals can be.[63] Under the stress of unrealistic goals, otherwise ethical employees may feel they have no choice but to do whatever is necessary to meet those goals. Also, goal achievement is usually a key issue in performance appraisal. If performance appraisals focus only on economic goals, ends will begin to justify means. To encourage ethical behavior, both ends *and* means should be evaluated. For example, a manager's annual review of employees might include a point-by-point evaluation of how their decisions measured up against the company's code of ethics as well as how well goals were met.

Ethics Training

More organizations are setting up seminars, workshops, and similar ethics training programs to encourage ethical behavior. Such training programs aren't without controversy as the primary concern is whether ethics can be taught. Critics stress that the effort is pointless because people establish their individual value systems when they're young. Proponents note, however, several studies have shown that values can be learned after early childhood. In addition, they cite evidence that shows that teaching ethical problem solving can make an actual difference in ethical behaviors;[64] that training has increased individuals' level of moral development;[65] and that, if nothing else, ethics training increases awareness of ethical issues in business.[66]

How can ethics be taught? Let's look at an example involving global defense contractor Lockheed Martin, one of the pioneers in the case-based approach to ethics training.[67] Lockheed Martin's employees take annual ethics training courses delivered by their managers. The main focus of these short courses is Lockheed Martin–specific case situations "chosen for their relevance to department or job-specific issues." In each department, employee teams review and discuss the cases and then apply an "Ethics Meter" to "rate whether the real-life decisions were ethical, unethical, or somewhere in between." For example, one of the possible ratings on the Ethics Meter, "On Thin Ice," is explained as "bordering on unethical and should raise a red flag." After the teams have applied their ratings, managers lead discussions about the ratings and examine "which of the company's core ethics principles were applied or ignored in the cases." In addition to its ethics training, Lockheed Martin has a widely used written code of ethics, an ethics helpline that employees can call for guidance on ethical issues, and ethics officers based in the company's various business units.[68]

Independent Social Audits

The fear of being caught can be an important deterrent to unethical behavior. Independent social audits, which evaluate decisions and management practices in terms of the organization's code of ethics, increase that likelihood. Such audits can be regular evaluations or they can occur randomly with no prior announcement. An effective ethics program probably needs both. To maintain integrity, auditors should be responsible to the company's board of directors and present their findings directly to the board. This arrangement gives the auditors clout and lessens the opportunity for retaliation from those being audited. Because the Sarbanes-Oxley Act holds businesses to more rigorous standards of financial disclosure and corporate governance, more organizations are finding the idea of independent social audits appealing. As the publisher of *Business Ethics* magazine stated, "The debate has shifted from *whether* to be ethical to *how* to be ethical."[68]

Protective Mechanisms

Employees who face ethical dilemmas need protective mechanisms so they can do what's right without fear of reprimand. An organization might designate ethical counselors for employees facing an ethics dilemma. These advisors also might advocate the ethically "right" alternatives. Other organizations have appointed ethics officers who design, direct, and modify the organization's ethics programs as needed.[69] The Ethics and Compliance Officer Association is the world's largest group of ethics and compliance practitioners with a total membership topping 1,100 (including more than half of the *Fortune* 100 companies) and covering several countries including, among others, the United States, Germany, India, Japan, and Canada.[70]

Social Responsibility and Ethics Issues in Today's World

Today's managers continue to face challenges in being socially responsible and ethical. Next we examine three current issues: managing ethical lapses and social irresponsibility, social entrepreneurship, and promoting positive social change.

Managing Ethical Lapses and Social Irresponsibility

Even after public outrage over the Enron-era misdeeds, irresponsible and unethical practices by managers in all kinds of organizations haven't gone away, as you've observed with some of the questionable behaviors that took place at financial services firms such as Goldman Sachs and Lehman Brothers. But what's more alarming is what's going on "in the trenches" in offices, warehouses, and stores. One survey reported that among 5,000 employees: 45 percent admitted falling asleep at work; 22 percent said they spread a rumor about a coworker; 18 percent said they snooped after hours; and 2 percent said they took credit for someone else's work.[71]

Unfortunately, it's not just at work that we see such behaviors. They're prevalent throughout society. Studies conducted by the Center for Academic Integrity showed that 26 percent of college and university business majors admitted to "serious cheating" on exams and 54 percent admitted to cheating on written assignments. But business students weren't the worst cheaters—that distinction belonged to journalism majors, of whom 27 percent said they had cheated.[72] And a survey by Students in Free Enterprise (SIFE) found that only 19 percent of students would report a classmate who cheated.[73] But even more frightening is what today's teenagers say is "acceptable." In a survey, 23 percent said they thought violence toward another person is acceptable on some level.[74] What do such statistics say about what managers may have to deal with in the future? It's not too far-fetched to say that organizations may have difficulty upholding high ethical standards when their future employees so readily accept unethical behavior.

What can managers do? Two actions seem to be particularly important: ethical leader-ship and protecting those who report wrongdoing.

ETHICAL LEADERSHIP. Not long after Herb Baum took over as CEO of Dial Corporation he got a call from Reuben Mark, the CEO of competitor Colgate-Palmolive, who told him h had a copy of Dial's strategic marketing plan that had come from a former Dial salesperso who recently had joined Colgate-Palmolive. Mark told Baum that he had not looked at didn't intend to look at, and was returning it. In addition, he himself was going to de appropriately with the new salesperson.[75] As this example illustrates, managers must provi ethical leadership. As we said earlier, what managers *do* has a strong influence on employe decisions whether to behave ethically. When managers cheat, lie, steal, manipulate, t advantage of situations or people, or treat others unfairly, what kind of signal are they send to employees (or other stakeholders)? Probably not the one they want to send. Exhibit gives some suggestions on how managers can provide ethical leadership.

PROTECTION OF EMPLOYEES WHO RAISE ETHICAL ISSUES. What would you do i saw other employees doing something illegal, immoral, or unethical? Would you ste ward? Many of us wouldn't because of the perceived risks. That's why it's importa managers to assure employees who raise ethical concerns or issues that they will fa personal or career risks. These individuals, often called **whistle-blowers**, can be part of any company's ethics program. For example, Sherron Watkins, who was president at Enron, clearly outlined her concerns about the company's accounting pr part of any comp... president at Enron, clearly outlined h... g practic in a letter to chairman Ken Lay. Her statement that, "I am incredibly nervous that we w implode in a wave of accounting scandals" couldn't have been more prophetic.[76] Howev surveys show that most observers of wrongdoing don't report it and that's the attitude ma agers have to address.[77] How can they protect employees so they're willing to step u they see unethical or illegal things occurring?

One way is to set up toll-free ethics hotlines. For instance, Dell has an ethics hotli that employees can call anonymously to report infractions that the company will th investigate.[78] In addition, managers need to create a culture where bad news can be heard a acted on before it's too late. Michael Josephson, founder of the Josephson Institute of Ethi [www.josephsoninstitute.org] said, "It is absolutely and unequivocally important to establi a culture where it is possible for employees to complain and protest and to get heard."[79] Ev if some whistle-blowers have a personal agenda they're pursuing, it's important to take th seriously. Finally, the federal legislation Sarbanes-Oxley offers some legal protection. A manager who retaliates against an employee for reporting violations faces a stiff penalty: 10-year jail sentence.[80] Unfortunately, despite this protection, hundreds of employees who ha stepped forward and revealed wrongdoings at their companies have been fired or let go fro their jobs.[81] So at the present time, it's not a perfect solution, but is a step in the right directi

Social Entrepreneurship

The world's social problems are many and viable solutions are few. But numerous peopl and organizations are trying to do something. For instance, Reed Paget, founder and CE

- Be a good role model by being ethical and honest.
  - Tell the truth always.
  - Don't hide or manipulate information.
  - Be willing to admit your failures.
- Share your personal values by regularly communicating them to employees.
- Stress the organization's or team's important shared values.
- Use the reward system to hold everyone accountable to the values.

of British bottled water company Belu, made his company the world's first to become carbon-neutral. Its bottles are made from corn and can be composted into soil. Also, Belu's profits go toward projects that bring clean water to parts of the world that lack access to it. Paget has chosen to pursue a purpose as well as a profit.[82] He is an example of a **social entrepreneur**, an individual or organization who seeks out opportunities to improve society by using practical, innovative, and sustainable approaches.[83] "What business entrepreneurs are to the economy, social entrepreneurs are to social change."[84] Social entrepreneurs want to make the world a better place and have a driving passion to make that happen. For example, AgSquared aims to help small farmers, who make up 90 percent of the farms in the United States, keep better track of critical information such as basic accounting of seeds, soil data and weather mapping, and even best practices from the farm community.[85] Also, social entrepreneurs use creativity and ingenuity to solve problems. For instance, Seattle-based PATH (Program for Appropriate Technology in Health) is an international nonprofit organization that uses low-cost technology to provide needed health-care solutions for poor, developing countries. By collaborating with public groups and for-profit businesses, PATH has developed simple life-saving solutions, such as clean birthing kits, credit-card sized lab test kits, and disposable vaccination syringes that can't be reused. PATH has pioneered innovative approaches to solving global medical problems.[86]

What can we learn from these social entrepreneurs? Although many organizations have committed to doing business ethically and responsibly, perhaps there is more they can do, as these social entrepreneurs show. Maybe, as in the case of PATH, it's simply a matter of business organizations collaborating with public groups or nonprofit organizations to address a social issue. Or maybe, as in the case of AgSquared, it's providing expertise where needed. Or it may involve nurturing individuals who passionately and unwaveringly believe they have an idea that could make the world a better place and simply need the organizational support to pursue it.