Chapter 5

Social Responsibility and Managerial Ethics

How important is it for organizations and managers to be socially responsible and ethical? In this chapter, we're going to look at what it means to be socially responsible and ethical and what role managers play in both. Focus on the following learning outcomes as you read and study this chapter.

LEARNING OUTCOMES

A Manager's Dilemma

Courtesy: Jubilant Organosys

Jubilant Organosys offers products and services to global life science companies. The company works with a concept of triple bottomline—economic, environmental, and social. It recognizes that the manufacturing of the industrial chemicals for providing them to the life science companies is polluting. Thus, it has introduced environmentally sensitive practices in all its processes. Jubilant has been involved with the World Health Organization in Western UP (in Gajraula, near its manufacturing locations) to help in the eradication of tuberculosis (TB). Jubilant Organosys, which exports to different countries, such as the United Kingdom, United States, and Japan, has acquired global certifications, such as ISO 14000 and OHSAS 18000. It is one of the five companies in India who publish an annual Sustainability Report (SR) that displays its commitment toward being transparent and accountable to its stakeholders.[1] If you were a manager at Jubiliant Organosys, how would you instill the importance of being socially responsible as well as profitable among new recruits?

What would you do?

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 may have to cope with as they plan, organize, lead, and control. As managers manage, these issues can and do influence their actions.

LEARNING OUTCOME 5.1 ▷

WHAT IS SOCIAL RESPONSIBILITY?

By using digital technology and file sharing Web sites, music and video users all over the world 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 industry environment offer employees early retirement and buyout packages. Are these companies being socially responsible? Managers regularly face decisions that have a dimension of social responsibility, such as those involving 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 has 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 a firm's engaging 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 recent 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 means that a company engages in social actions in response to some popular social need. Managers in these companies are guided by social norms and values and make practical, market-oriented decisions about their actions.[6] For instance, managers at American Express Company identified three themes—community service, cultural heritage, and leaders for tomorrow—to guide it in deciding which worldwide projects and organizations to support. By making these choices, managers "responded" to what they felt were important social needs.[7]

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.[8] Our definition assumes that a business obeys the law and cares for its stockholders, and it adds an ethical imperative to do those things that make society better and not to do those that make it worse. As Exhibit 5–1 shows, 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

thinking critically about Ethics

In an effort to be (or at least appear to be) socially responsible, many organizations donate money to philanthropic and charitable causes. In addition, many organizations ask their employees to make individual donations to these causes. Suppose you're the manager of a work team, and you know that several of your employees can't afford to pledge money right now because of personal or financial problems. You've also been told by your supervisor that the CEO has been known to check the list of individual contributors to see who is and is not "supporting these very important causes." What would you do? What ethical guidelines might you suggest for individual and organizational contributions in such a situation?

social obligation
A firm's engaging in social actions because of its obligation to meet certain economic and legal responsibilities.

classical view
The view that management's only social responsibility is

socioeconomic view
The view that management's social responsibility goes beyond making profits and includes protecting and improving society's welfare.

social responsiveness
A firm's engaging in social actions in response to some

social responsibility
A business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society.

Exhibit 5–1

Social Responsibility Versus Social Responsiveness

	Social Responsibility	Social Responsiveness
Major consideration	Ethical	Pragmatic
Focus	Ends	Means
Emphasis	Obligation	Responses
Decision framework	Long term	Medium and short term

Source: Adapted from S. L. Wartick and P. L. Cochran, "The Evolution of the Corporate Social Performance Model," *Academy of Management Review*, October 1985, p. 766.

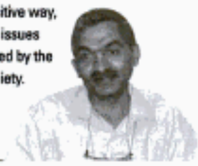
more frequently and reducing air conditioning and heating. However, an Abt family member said, "These actions weren't just about costs, but about doing the right thing. We don't do everything just because of money."[9]

So, how should we view an organization's social actions? A manufacturer that meets pollution control standards or hires scheduled caste applicants to meet its constitutional quota does it because laws mandate these actions. However, when it provides childcare facilities for employees or runs a program for helping widows in the community, 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, Times of India started an initiative to address the issues of illiteracy. Educated readers of the paper were urged to donate two hours of their time for children who needed help for reading and writing. As a part of this program, the paper ran advertisements in all its publications reading "TEACH INDIA: Lets learn to teach" and "WE'VE JUST IDENTIFIED THE PERFECT SOLUTION TO ILLITERACY – YOU."[10]

Let's Get Real: F2F

BEING SOCIALLY RESPONSIBLE MEANS:
Using the resources of the organization to address, in a positive way, the issues faced by the society.



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 is by examining arguments for and against social involvement. Several points are outlined in Exhibit 5–2.[11]

Another way to look at this is whether social involvement affects a company's economic performance, which numerous studies have done.[12] Although most have found a small positive relationship, no generalizable conclusions can be made because the studies haven't use standardized measures of social responsibility and economic performance.[13] Another concern in these studies has been causation: If a study showed that social involvement and economic performance were positively related, this 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.[14] 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.[15] Another found that participating in social issues not related to the organization's primary stakeholders was negatively associated with shareholder value.[16] A recent re-analysis of several studies concluded that managers can afford to be (and should be) socially responsible.[17]

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 (Exhibit 5–3). For instance, SRI funds usually do not invest in companies which are involved in liquor, gambling, tobacco, nuclear power, weapons, price fixing, or fraud or in companies that have poor product safety, employee relations, or environmental track records. In March 2008, it was reported that ABN AMRO is the only company which floats a fund that invests in the sustainable development.[18] The AMRO Sustainable Development Fund invests in companies with high-disclosure policies on environmental, social, and corporate governance yardsticks. ABN AMRO's mutual fund invests 65 percent of its capital in companies that deliver well on ethical parameters.[19]

Exhibit 5–2

Arguments For and Against Social Responsibility

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.	

Exhibit 5–3

Trends in SRI in US

Socially Responsible Investing in the US • 1995–2007

(In billions)	1995	1997	1999	2001	2003	2005	2007
Social Screening	$162	$529	$1,497	$2,010	$2,143	$1,685	$2,098
Shareholder Advocacy	$473	$736	$922	$897	$448	$703	$739
Screening and Shareholder	N/A	($84)	($265)	($592)	($441)	($117)	($151)
Community Investing	$4	$4	$5	$8	$14	$20	$26
Total	$639	$1,185	$2,159	$2,323	$2,164	$2,290	$2,711

Source: Social Investment Forum Foundation.

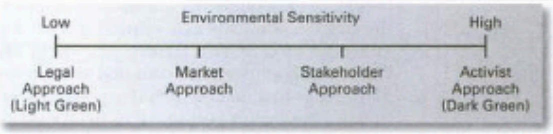
Notes: Social Screening includes socially and environmentally screened funds and separate account assets. Overlapping assets involved in Screening and Shareholder Advocacy are subtracted to avoid potential double-counting. Tracking Screening and Shareholder Advocacy together only began in 1997, so there is no datum for 1995. There are also potentially overlapping assets in the relatively small screened funds categories of Alternative Investments and Other Pooled Products; therefore these categories are also excluded from the SRI universe aggregated in this Report. See Chapter II for details.

social screening
Applying social criteria (screens) to investment decisions.

Exhibit 5–4

Green Approaches

Source: Based on R. E. Freeman, J. Pierce, and R. Dodd, *Shades of Green: Business Ethics and the Environment* (New York: Oxford University Press, 1995).



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 (see Exhibit 5–4).[24]

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.

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

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

Finally, if an organization pursues an *activist* (or *dark green*) *approach*, it looks for ways to protect the earth's natural resources. The activist approach reflects the highest

Subway is helping to lead the way among retail food stores when it comes to "going green." The sandwich chain is testing ways to reduce its use of paper by serving its famous subs with less wrapping and using baskets made partly of recycled material to hold food instead. It has also switched to 100% recycled paper napkins, which the store estimates is saving 147,000 trees each year.

green management
A form of management in which managers consider the impact of their organization on the natural environment.

degree of environmental sensitivity and illustrates social responsibility. For example, the Belgian 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 grass 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.

EVALUATING GREEN MANAGEMENT ACTIONS

As businesses become "greener," they often release detailed reports on their environmental performance. Some 1,500 companies around the globe are voluntarily reporting 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 the ISO has developed more than 17,000 international standards, it's probably best known for its ISO 9000 (quality management) and ISO 14000 (environmental management) standards. An organization that wants to become ISO 14000 compliant must develop a total management system for meeting environmental challenges. This means 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, which organizations in 138 countries have achieved. In addition to its environmental management standards, ISO is developing standards for social responsibility and for energy management. The one for social responsibility (known as ISO 26000) will be published in 2010 and will be voluntary, which means that organizations won't be able to obtain any type of certification for meeting the standards. And no date has been announced for the energy management standards because the committee developing those standards was only recently created.[25]

The 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).[26] To be named to this list, which is announced each year at the renowned World Economic Forum in Davos, Switzerland, a company must have displayed a superior ability to effectively manage environmental and social factors. In 2008, the United Kingdom led the list with 23 Global 100 companies. The United States followed with 19 and Japan with 13. Some companies on the 2008 list included BASF (Germany), Diageo PLC (United Kingdom), Mitsubishi (Japan), and Nike (United States).

QUICK LEARNING REVIEW:

LEARNING OUTCOME 5.2

- Define green management.
- Describe how organizations can go green.
- Explain how green management actions can be evaluated.

Go to page 115 to see how well you know this material.

LEARNING **OUTCOME 5.3** ▷

MANAGERS AND ETHICAL BEHAVIOR

Two weeks after firing seven top managers for failing to meet company standards, Wal-Mart issued an extensive ethics policy for employees. Takafumi Horie, founder of the Tokyo-based Internet company Livedoor, was sentenced to 2.5 years in jail for securities violations. Former WorldCom CEO Bernie Ebbers is serving a 25-year prison sentence for financial fraud, conspiracy, and false filings. The Gemological Institute of America, which grades diamonds for independent dealers and large retailers, fired four employees and made changes to top management after an internal investigation showed that lab workers took bribes to inflate the quality of diamonds in grading reports.[27] When you hear about such behaviors—especially after the high-profile

Let's Get Real: F2F

BEING ETHICAL MEANS:
Being sensitive to other peoples' constraints and dealing with people without compromising on principles.

financial misconduct at Enron, WorldCom, and other companies—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 a 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?[28] 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 define it as the principles, values, and beliefs that define right and wrong decisions and behavior.[29] Many decisions that managers make require them to consider both the process and who's affected by the result.[30] 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

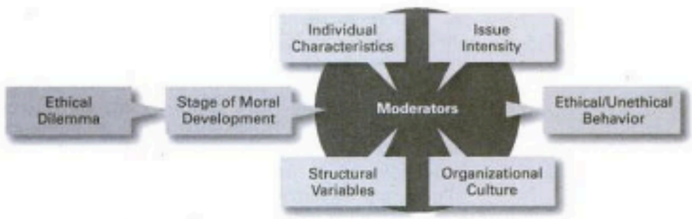
Whether someone behaves ethically or unethically when faced with an ethical dilemma is influenced by several things: his or her stage of moral development and other moderating variables, including individual characteristics, the organization's structural design, the organization's culture, and the intensity of the ethical issue (see Exhibit 5–5). 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 confirms there are three levels of moral development, each having two stages.[31] 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 and 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 5–6.

Exhibit 5–5

Factors that Determine Ethical and Unethical Behavior



ethics
Principles, values, and beliefs that define what is right and what is wrong behavior.

Exhibit 5–6

Stages of Moral Development

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

Source: Based on L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Development Approach," in T. Lickona (ed.), *Moral Development and Behavior: Theory, Research, and Social Issues* (New York: Holt, Rinehart & Winston, 1976), pp. 34–35.

What can we conclude about moral development?[32] 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.[33] 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.

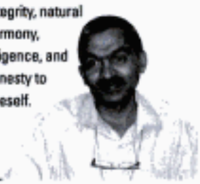
Locus of control is the degree to which people believe they control their own fate. People with an *internal* locus of control believe they control their own destinies. They're more likely to take responsibility for consequences and rely on their own internal standards of right and wrong to guide their behavior. They're also more likely to be consistent in their moral judgments and actions. People with an *external* locus believe that 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.[34]

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, regardless of whether there are economic incentives to do so. The researchers concluded that "goal setting can lead to unethical behavior."[35] Examples of such behaviors abound—from companies shipping unfinished products just to reach sales goals or

Let's Get Real:
F2F

MY COMPANY'S VALUES: Integrity, natural harmony, diligence, and honesty to oneself.



"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.[36]

An organization's performance appraisal system can also 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."[37] 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.

Organization's Culture. As Exhibit 5–6 shows, the content and strength of an organization's culture influence ethical behavior.[38] We learned in Chapter 3 that an organization's culture consists of the shared organizational values. These values reflect what the organization stands for and what it believes in, and they 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 that uses values-based management. Based on the simple statement "Make It Better," employees at Timberland know what's expected and valued: They know they need to 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." And Timberland isn't alone in its use of values-based management. A survey of global companies found that a large number—more than 89 percent—said they had written corporate values statements.[39] 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 in ethics. 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.[40] 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 3, a strong culture exerts more influence on employees than a weak one. A culture that is strong and supports high ethical standards has a very powerful and positive influence on the decision to act ethically or

values
Basic convictions about what is right and what is wrong.

ego strength
A personality measure of the strength of a person's convictions.

locus of control
A personality attribute that measures the degree to which people believe they control their own fate.

values-based management
A form of management in which an organization's values guide employees in the way they do their jobs.

unethically. For example, IBM has a strong culture that has long stressed ethical dealings with customers, employees, business partners, and communities.[41] 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 may not 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.[42]

As Exhibit 5–7 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 greater 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; and 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.

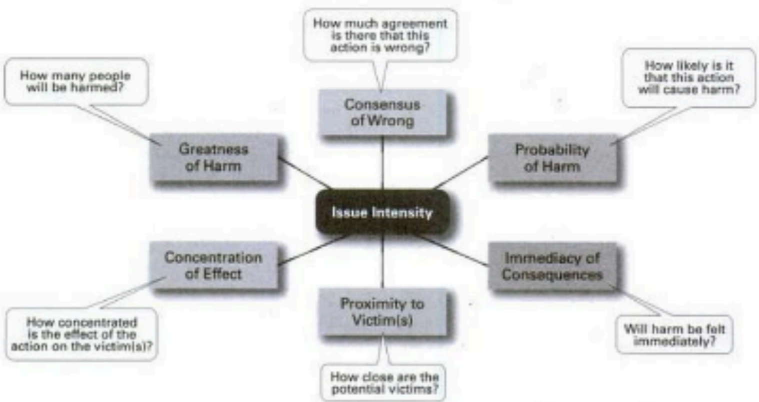
ETHICS IN AN INTERNATIONAL CONTEXT

Are ethical standards universal? Although some common moral beliefs exist, social and cultural differences between countries are important factors that determine ethical and unethical behavior.[43] For example, say that a manager in a Mexican firm bribes several high-ranking government officials in Mexico City to secure a profitable government contract. Although this business practice is unethical (and illegal) in the United States, it's acceptable in Mexico.

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 a middleman to get a major contract with a

Exhibit 5–7

Issue Intensity



QUICK LEARNING REVIEW:

LEARNING OUTCOME 5.3

- Define ethics.
- Discuss the factors that influence whether a person behaves ethically or unethically.
- Describe what managers need to know about international ethics.

Go to page 115 and see how well you know this material.

LEARNING **OUTCOME 5.4** ▷

ENCOURAGING ETHICAL BEHAVIOR

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 having a comprehensive ethics program in place 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, Infosys has been very vocal about its ethical practices. However, its ethical ethos could not stop managers of certain locations to curry favors to the bureaucrats who gave them permissions to set up business or prying into the personal lives of the employees, such as those who were having an affair, and then selectively firing employees based on such information or treating service providers differentially based on the service providers' size and reputation. Even Enron, often referred to as the "poster child" of corporate wrongdoing, outlined values in its 2000 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.[48] 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.[49] But even a carefully designed selection process isn't foolproof! Even under the best circumstances, individuals with questionable standards of right and wrong may be hired. However, this shouldn't be a problem if other ethics controls are in place.

CODES OF ETHICS AND DECISION RULES

Since 1999, the "Tata Code of Conduct," which is simple, easy to understand, and easy to follow, has been communicated to all employees of the organization.[50] The content of the code covers areas such as commitment toward national interest, maintaining harmonious relations with the employees, abhorrence of bribery and corruption, avoidance of conflicts of interest, and emphasis on corporate social responsibility. However, that's not the way it is in all organizations.

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 written codes of ethics. Even in smaller organizations, nearly 93 percent have them.[51] 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 worldwide.[52] In addition, a survey of businesses in 22 countries found that 78 percent have formally stated ethics standards and codes of ethics.[53]

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