



IS IT WORTH THE COST?

ETHICAL DECISION-MAKING
HUMAN RESOURCES
JDT: Task 2

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Code of Ethics Based On Social Responsibility

Ethics is the discipline dealing with what is good and bad or right and wrong or with moral duty and obligation. Discipline is a key word in the definition of ethics and the key to gaining and maintaining ethics within a company. Like a man trying to gain the perfect physique, it cannot be accomplished without daily diligent routines and workouts. Motivation to consistently and diligently maintain ethics comes from written goals and standards. These goals and standards in a business are called a “code of ethics.”

With ethics as a moral guide a company can make the right decision when placed at a crossroad. However, what type of ethics should a toy company follow? Stewardship, or ethics, at the toy company should closely relate to the growing trend in business called “Social Responsibility”. The idea of Social Responsibility is that corporations will self-regulate, hold themselves accountable, and act only in the best interest of their stakeholders (a stakeholder is defined as “a party that has interest in an enterprise or project” such as an investor, employee, customer, supplier, community, or government (Investopedia, 2013)).

Acting in the best interest of a stakeholder goes beyond just obeying the law. There are many things that are legal but unethical. For example, in Africa there are no laws limiting the amount of lead that can be found in a non-food item. Lead is cheap and can reduce production costs immensely. However, in America any accessible object with more than 100 ppm of lead is deemed illegal and toxic. If an American company could find a legal way to sell a knowingly toxic lead item to African consumers would it be ethical? Would it be acting in the best interest of all the stakeholders, namely the African consumer?

Smart corporations adopt a standard of social responsibility (or code of ethics) and go above what the law requires. The concept of social responsibility also ensures that a company’s strategies and procedures are ethically sound. As companies seek to achieve ethical leadership and a standard of corporate social responsibility they will often “employ an external auditor to review their financials and provide advice on communicating sensitive information to the public. Likewise, legal consultants provide companies with information on ethical HR practices and customer focus groups keep the business engaged with consumer wants and needs. Corporate governance is therefore about remaining responsible not only to the profit-generating motive of the company but also to its commitment to engage in fair practices, not exploiting people or the environment for unnecessary gains” (Bradley, 2013).

Benefits

A code of ethics has positive effects on all aspects of business including public relations, retention and cash flow. The untapped potential of social responsibility is enormous and can benefit the toy company substantially. Socially responsible companies are looking out for three tiers, people, environment and profit. By being socially responsible to the first two tiers the third tier is fulfilled. For example, by seeking to minimize lead found in toys beyond the legal limit and take care of each

individual consumer's needs and wants in an ethical manner the toy company will find that they will be more profitable because of public popularity and customer loyalty plus retention.

You may ask, "Does good ethics result in good business?" I am here to say yes! I am not the only one that believes that good ethics provides substantially good results. Keep in mind in the end social responsibility is "just good ethics" to all stakeholders not just shareholders. Obviously the impact can be seen; increasing the ethical span equals more good business. Here are two references to keep in mind as we explore the benefits of a code of ethics that resembles social responsibility at the toy company.

Harvard Business School: "companies committed to ethical behavior and concern for customers, employees, and shareholders outperform those organizations less interested in ethical leadership" (Kotter & Heskett, 2013).

Ethicist Robert C. Solomon: "Ethical businesses tend to be more trusted and better treated, and to suffer less resentment, inefficiency, litigation and government interference. Ethics is just good business."(Solomon, 2013).

Customers benefit from a code of ethics in knowing they can trust a company to give genuine attention to their safety and concerns. This includes individual purchases as well as concern for their environment and the global environment. As a result, they come back. Consumers are drawn to companies that they feel adhere to their own values. One of those most important values is customer service. People are attached to their money and want to feel that they get what they pay for. If a product has a problem, a company's graceful, ethical response to the solution tells customers that they are important, they are noticed, and they are taken care of. If a company resolves a pollution issue, it tells customers that the company cares about more than money. It cares about the water you drink and the air you breathe and is interested in building bridges for future generations. The positive messages a company sends through adhering to a code of ethics can be endless and the benefits to consumer and company can also be numerous.

In a company where ethical business standards are acted upon, employees benefit, too. The company benefits in turn. Employees can often be paid more by a company that enjoys the bottom-line benefits of ethics. Also, a company that does not exploit its consumer is also often a company that does not exploit its employee. Ethical businesses make sure their employees are cared for, find fulfillment in their work, and have opportunity for advancement when possible. Happy employees make for a happy company with more efficiency and less turnover. When employees are valued and treated well according to a code of ethics, companies are also often able to stay at the forefront of their industries because they are filled with motivated people whose fresh ideas keep the company moving, avoiding stagnation in products or services.

Overall, when a company adheres to ethical businesses practices as outlined in its code of ethics, everyone benefits. Individual lives are improved and the bottom line of the company is directly impacted for the better.

REI's Code of Ethics and Ethical Leadership Approach

REI's mission is to "inspire, educate and outfit people for a lifetime of outdoor adventure and stewardship" (REI Workplace, 2013). Their mission goes hand-in-hand with their stewardship or code of ethics priorities: "(1) Encourage the active conservation of nature; (2) Inspire the responsible use and enjoyment of the outdoors; (3) Enhance the natural world and our communities through responsible business practices; (4) Foster opportunities to increase participation in human-powered outdoor recreation; (5) Maintain REI as an employer of choice, where employees are highly engaged in the vision of the company and are representative of our communities" (REI Workplace, 2013). The toy company is not an outfitter for the outdoors, but it can learn from REI's stewardship priorities or code of ethics.

For example, REI's priority number one is really its way in saying it is going to be environmentally conscientious and practice sustainable operations. Being socially responsible to the environment is important to REI because without forests the company could not exist. Likewise, the toy company could not exist if natural minerals, fibers and many elements were depleted. Like REI, it is in the best interest of the toy company to pursue a code of conduct that promotes sustainable environmental operations. Figure 1 offers three ways REI has promoted sustainable environmental operations that the toy company may want to consider.

REI's Sustainable Environment Solutions

Increase Green Energy Use

Wind & Solar Technology:

Seek wind and solar wherever possible with two determining conditions:

1. The source must be a new renewable energy generation qualifying under the most recent Green-e certification requirements.
2. The product must offer a financial hedge against future energy price escalation, particularly risks associated with fossil fuel costs.

Eliminate Heating & cooling Units with Freon (R22) by 2025: 1. Replace outdated units with safer, more efficient equipment. Connect each unit to a sophisticated management system that optimizes their use.

Eliminate incandescent bulbs: As old bulbs wear out replace them with efficient long-lasting lights. Thus Reducing electrical costs and our impact on the environment.

Centralized energy management system w/ occupancy and light intensity sensors:

1. Minimizes the amount of time that lights are "ON" (only on when needed).

Skylights: Update older buildings by 2025 and plan new buildings with skylights.

Zero waste-to-landfill organization by 2020

Increase recycling and recovery options: (1) Partner with waste vendors and other retailers to expand recycling options around the country. (2) Composting food waste units at headquarters.

Work with suppliers to design out waste materials:

Example: eliminate packaging such as plastic bags destined for the landfill

Reduce Paper Usage

1. Reduce direct mail pieces in favor of electronic communications and digital marketing efforts: Email is an efficient and effective marketing stream. Inviting customers to join our online community through email can greatly increase sales and reduce printing, paper and postage costs of the direct mail services.

2. Boost efficiency of catalogs and printed materials by: comprehensively scrubbing the mailing list and by offering opt-out programs.

3. Redesign packaging of REI brand clothing and gear to minimize the amount of paper it contains.

4. Buy only paper products that have been approved by the FSC (Forest stewardship Council) and/or avoiding paper products that the fiber comes from unknown or unwanted sources: Undesirable paper and wood fiber include: paper that has come from illegal logging, contribute to human rights violations or actively convert natural forests to plantations or non-forest uses.

Figure 1: REI's Sustainable Environment Solutions (REI Sustainable Operations, 2013)

REI's third priority, "Enhance the natural world and our communities through responsible business practices" can also help the toy company build its own commitment to up hold responsible business practices. Responsible business practices cover a wide birth. However, they can be put into three large categories: Law, viability or sustainable operations and ethical leadership.

REI has been obedient to its third priority by continually upholding the law and where necessary changing its manufacturing and retail procedures to comply to state and federal regulations. For example, Internet and the collection of taxes can be tricky. Before 1992 and the need to collect sales taxes for items sold over the Internet was a bit foggy. However, in 1992 the Supreme Court ruled that "states cannot require mail-order businesses, and by extension, online retailers to collect sales tax unless they have a physical presence in the state. The Court reasoned that forcing sellers to comply with over 7,500 tax jurisdictions was too complex for sellers to manage, and would put a strain on interstate commerce" (Small Business Administration, 2013). REI of course, quickly upheld this new ruling and charged sales tax only to places where they had a physical location.

While going green has been great for business at REI it has also made it even more important to understand green marketing regulations to avoid trouble with the law. The Federal Trade Commission (FTC) prohibits “deceptive acts or practices in advertising, labeling, product inserts, catalogs, and sales presentations. These apply to marketing and advertising of green products” (Small Business Administration, 2013). If environmental claims are being made through advertising, marketing or product labels REI must ensure all claims are true. For example, if a health bar is advertised in the storefront as being all natural and organic the health bar must meet the all-natural and organic food regulations/standards. If it found that it is not fully organic REI could be held legally responsible for deceptive acts or practices. The rule of thumb here is if REI decides to promote “Green” products or services, they need to be acutely aware with the industry standards and regulations of those products and services. Likewise if the toy company is going to sell a child’s toy as BPA free it needs to be sure that the toy meets the BPA free requirements. It is always important to check to see if your product or service meets the requirements before advertising and marketing begins.

An Ethical leader always promotes obedience to laws and regulations. One of the ways that a good manager can be caught off guard and receive a complaint is by not having a firm foundation of employment and labor law. Figure 2 below presents some of the employment and labor laws that REI upholds and that the toy company should be aware.

Laws & Regulations	
The Family and Medical Leave Act	Administered by the Wage and Hour Division, the Family and Medical Leave Act (FMLA) requires employers of 50 or more employees to give up to 12 weeks of unpaid, job-protected leave to eligible employees for the birth or adoption of a child or for the serious illness of the employee or a spouse, child or parent.
Employee Protection	Most labor and public safety laws and many environmental laws mandate whistleblower protections for employees who complain about violations of the law by their employers. Remedies can include job reinstatement and payment of back wages. OSHA enforces the whistleblower protections in most laws.
Workplace Safety & Health	The Occupational Safety and Health (OSH) Act is administered by the Occupational Safety and Health Administration (OSHA). Safety and health conditions in most private industries are regulated by OSHA or OSHA-approved state programs, which also cover public sector employers. Employers covered by the OSH Act must comply with the regulations and the safety and health standards promulgated by OSHA. Employers also have a general duty under the OSH Act to provide their employees with work and a workplace free from recognized, serious hazards. OSHA enforces the Act through workplace inspections and investigations. Compliance assistance and other cooperative programs are also available.
Wages & Hours	<p>The Fair Labor Standards Act (FLSA) prescribes standards for wages and overtime pay, which affect most private and public employment. The act is administered by the Wage and Hour Division. It requires employers to pay covered employees who are not otherwise exempt at least the federal minimum wage and overtime pay of one-and-one-half-times the regular rate of pay.</p> <p>The Act applies to enterprises with employees who engage in interstate commerce, produce goods for interstate commerce, or handle, sell, or work on goods or materials that have been moved in or produced for interstate commerce. For most firms, a test of not less than \$500,000 in annual dollar volume of business applies (i.e., the Act does not cover enterprises with less than this amount of business).</p>

Figure 2: Laws and Regulations(United States Department of Labor, 2013)

Viability and sustainability go hand in hand with REI's goal "inspire, educate and outfit people for a lifetime of outdoor adventure and stewardship" (REI Sustainable Operations, 2013). As an outfitter for outdoor activities active living forests are imperative to future growth and success to the company. Therefore, it is only natural that REI would want to pursue a near paperless structure. Going paperless involves three main aspects, reducing direct paper mail, boosting catalog efficiency and redesigning product packaging. Figure 3 provides REI's paperless strategy.

Reduce Direct Mail	Reduce direct mail pieces in favor of electronic communications and digital marketing efforts. Email is an efficient and effective marketing stream. Inviting customers to join our online community through email can greatly increase sales and reduce printing, paper and postage costs of the direct mail services.
Boost Catalog Efficiency	Boost efficiency of catalogs and printed materials by: comprehensively scrubbing the mailing list and by offering opt-out programs.
Redesign Packaging	Redesign packaging of Gear Guru brand clothing and gear to minimize the amount of paper it contains. For example, Gear Guru's polyester t-shirts are boxed individually and then put into a larger box for delivery to our retail locations. These t-shirts are often taken out of their box for display purposes. Instead of packaging each t-shirt individually a large cardboard separator could be used to keep the polyester t-shirts organized in the larger shipping box and thus eliminate the unnecessary packaging and cost.

Figure 3: Beginning Paperless Strategy (REI Sustainable Operations, 2013)

Increasing REI's use of green energy options also provides to its viability. Not only does it save the in company money due to smaller utility costs but it also sustains the environment to the use of outdoor recreation and enjoyment. Figure 1 provides multiple ways that REI has moved toward green power alternatives including: skylights, wind and solar power and high efficiency lights & HVAC systems. It is important to remember that viability is not just about finding options that save money. Viability also means finding ways in which the company can create money. While searching for ways to be more ethical to the first two tiers of social responsibility (people & environment) the third tier, profit, is fulfilled.

A code of ethics starts with a piece of paper but is implemented by its leaders and followers. REI has embraced the idea that the first step to fulfilling its code of ethics or stewardship is getting the right people on the bus. The idea being that if they have the right people they can take that bus anywhere.

It is important to generate leaders within a company if a code of ethics is to be successful. At first glance you would look to management to be the leaders. Though many managers can lead, not all managers are leaders. A good leader is "accountable, respectful, consistent in their approach and is open to communication" (Bradley, 2013). Furthermore, a leader upholds ethical business practices and manages risk by keeping "the company's reputation and fiscal health in check" (Bradley, 2013). In laymen terms, an ethical leader is a builder and supporter of his/her stakeholders. REI leaders understand the age-old saying; it takes years to build and only takes mere seconds to destroy.

Ethical practices such as transparent accounting, steering clear of activities that could bring negative media attention, honoring contracts and engaging directly with customers, employees, and the community allow REI to show its commitment to being socially responsible and create a culture of risk aversion.

It is true, ethical leadership starts with upper management. However, for an ethical leadership plan to succeed it must trickle down to the lowest level. Every stakeholder, like suppliers, employees and communities should be aware of the toy company's ethical code of conduct and commitment to ethical leadership. In reality ethical leadership is three-tiered taking into consideration people, planet, and profit.

Creating a pleasant work place is one of the ways REI shows its commitment to its own code of ethics. REI understands employees spend up to one-third of their time at work. Work at REI, therefore, needs to be a place that is comfortable, pleasant and intellectually stimulating to increase the chance that an employee's time at the company will be enriched. Employees that feel enriched are more likely to stick around. Not to mention, such an atmosphere attracts more talented young leaders who could take the company to the next level.

REI offers several benefits to attract leaders who will uphold its ethical standards. In fact, REI has been "consistently ranked one of the top companies to work for" (REI Workplace, 2013). Figure 4 below shows just a few benefits that REI offers.

Annual incentive plan	The annual incentive plan is based on reaching individual, both department and company goals. Incentive targets depend upon pay grade with all employees being eligible for the annual incentive plan.
Retirement and profit sharing	401K with Gear Guru guaranteeing a contribution of 5% with eligible discretionary funding up to an extra 10% depending on company profitability. No employee contribution necessary.
Healthcare: health, life & disability plans	Flex plan available to all Full and part-time employees averaging 20 hours or more per a week. For purchase, additional plans such as, vision, dental and long-term care can be acquired.
Tuition reimbursement	Financial support given to employee for the purpose of attaining higher education. The course of study could be aimed at growth in a current job or a possible change of career with in Gear Guru.
Challenge grant	Grant Provided as an opportunity for employee to achieve a personal outdoor challenge or goal. (i.e. 100 mile bike ride, hike the Grand Canyon, climb K2)
Paid vacation	Earned time off encourages rejuvenation of body and spirits. Each employee can earn up to 12 paid days a year of personal vacation time and 8 days of sick leave with an additional 8 days of paid holiday leave.
Personal leave of absence	Employees can request up to 12 weeks of un-paid leave a year. With manager approval, a leave can be used to pursue any personal interest including volunteering, traveling the globe or going back to school.
Employee discount program	Gear Guru employees receive 50% discounts on all Gear Guru brand items, free gear rentals for personal use from any Gear guru store, 30% discount off vendor merchandise and 10% off sale items. Select vendors may also provide prodeal options through Gear Guru for employees.
Public transit subsidy	50 percent subsidy for using public transit methods.
Employee referral bonuses	Refer someone to Gear Guru and if they are hired receive a \$100-\$2,000 bonus.
Relocation support	Financial assistance to full-time employees who move more than 50 miles to fill a job position.

Figure 4: REI's Benefits & Incentives (REI, 2013)

Such benefits and incentives could be used in the toy company to attract outstanding and creative employees to uphold its own code of ethics. It is also important to note that continually training employees in ethical approaches and social responsibility is key to up holding and forming an ethical culture. Educating its employees on ethical practices is one of the things REI does best.

REI over the years has better defined its own code of ethics over the years by adding more to it. For example, in 1993 REI introduced its factory code of conduct. “The code establishes standards of workplace conduct for the factories that manufacture products (they) sell — both...REI-brand products (REI and Novara) and the products of other brands” (REI Workplace, 2013). The toy company could also establish a code that would establish standards for itself and its suppliers. If such a code already existed there would have been no question as to what to do with the whistles that had toxic lead levels.

REI believes that fair labor compliance cannot be achieved by one brand alone. Therefore, they have partnered with the Fair Factories Clearinghouse (FFC) and Outdoor Industry Association (OIA). Through these partnerships REI has been able to “enhance leverage, build trust with suppliers and brands and work together to address systemic causes of fair labor violations” (REI Workplace, 2013). Like REI the toy company can also partner with organizations that have similar ethical values. In greater numbers the toy company can find strength to pursue its own ethical standard of conduct.

Figure 5 offers ten ways the toy company can further continue to build an ethical and socially responsible company.

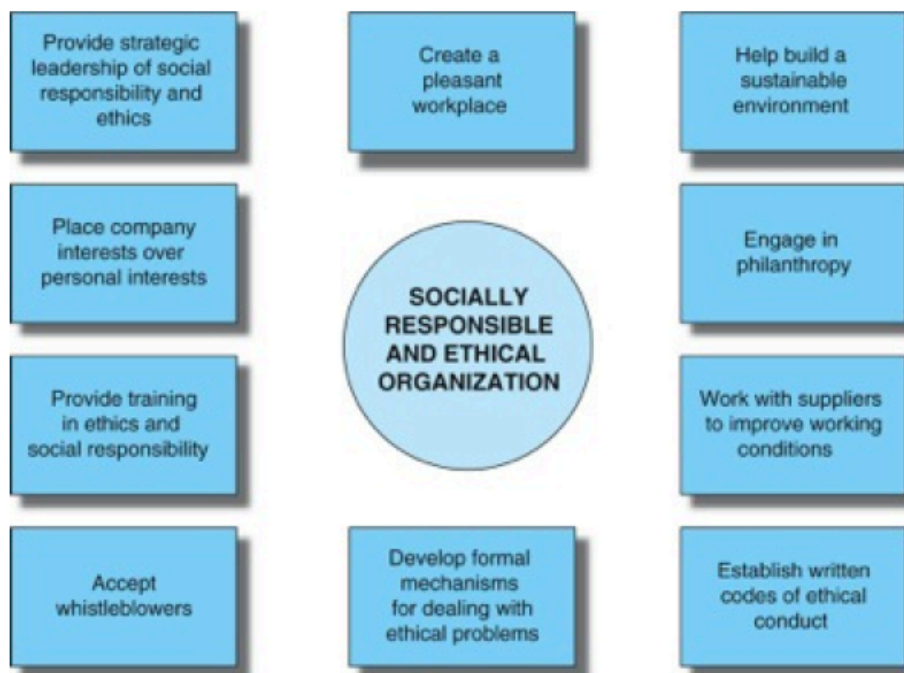


Figure 5: Socially Responsible & Ethical Organization (DuBrin, 2013).

Strategies for Toy Company

Having a written code of ethics is one strategy that the toy company could adopt to ensure that ethical decision-making takes place at all levels of the organization. Another is to develop formal mechanisms for dealing with ethical problems. (DuBrin, 2013).

A Written Code

The toy company needs to start by assigning a task force to create the code of ethics. The best route for this would probably be to start with senior officers of the company as well as including a lower level manager and carefully selecting someone who works in production. (i.e., HR Manager, Regional Supervisor, Floor Manager, Production Line Worker) Getting input from different personnel levels helps ensure that the Code of Ethics is applicable and encompasses as many areas as possible to serve the company as a whole.

Once the task force has completed its work and the code is complete, training will commence. Managers will be trained on the code of ethics and what it entails. Each division can be given a directive to find ways in which they, individually, can make changes to help their division meet with the goals of the organization's ethical standards. Managers can then train workers about the code of ethics, how it applies to them and how it will benefit employees, customers, and the company as a whole. As mentioned on page eight, incentives and benefits can be used to help employees see and contribute to the importance of the code of ethics. Again, managers can set goals for their overall divisions as well as goals with individuals for keeping to the standards the company has chosen to adopt. Channels will be kept open for employees at all levels to suggest changes in how the code is written or implemented to ensure that the code continues to benefit individuals and the company as much as possible as situations arise and the company grows and changes. Allowing this kind of expression gives employees a voice and can help keep them motivated to continually identifying best practices in ethical behavior.

A Formal Process

When a problem arises, a company should not have to make spur of the moment decisions about how it will be handled. Having a formal process in place allows decision makers to approach solving a problem with organization and logic rather than chaos and emotion.

The National Association of Social Workers offers this six-step process for ethical problem solving. 1. Determine the ethical issue/dilemma 2. Identify key values/principles involved 3. Rank values that are most relevant to the issue 4. Develop an action plan consistent with your ethical priorities 5. Implement the plan 6. Reflect on the outcome of your process (Reamer & Conrad, 2003).

The toy company can begin with a similar simple framework. A core task force, likely from Human Resources and Public Relations, can be assigned to handle ethical problems with a charge to pull in extra people as specific issues arise. Having a

consistent process to follow will give the team a place to start as they approach doubtlessly varied and ethical issues. As they begin the process with each decision, the code of ethics is a spring board of action in that they waste less time discussing, "Where do we stand?" and more time making decisions and taking action.

Regardless of the areas in which the issues arise (i.e. employee relations, public relations, environmental concerns, etc.) the general process will continue to apply and provide clarity and efficiency to dealing with one of the most complex areas of doing business.

Conclusion

By taking a page out of REI's book, creating a written code of ethics, and having a consistent ethical problem solving process in place, the toy company will have a good start to the process of implementing ethical business practices. As the company continues to progress and change, it will implement more processes in the different areas in which it does business. However, the code of ethics and problem solving process will serve as the foundational building blocks as the company builds its future as an ethical powerhouse in the business world.

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