part 2 : chapter 5

Ethics and Social Responsibility

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Chapter Outline

Learning Outcomes

After studying this chapter, you should be able to:

1. Define ethics and explain how ethical behavior relates to behavior governed by law and free choice.
2. Discuss why ethics is important for managers and identify recent events that call for a renewed commitment to ethical management.
3. Explain the utilitarian, individualism, moral rights, justice, and practical approaches for making ethical decisions.
4. Describe the factors that shape a manager's ethical decision making, including levels of moral development.
5. Identify important stakeholders for an organization and discuss how managers balance the interests of various stakeholders.
6. Explain the philosophy of sustainability and why organizations are embracing it.
7. Describe what is meant by "the triple bottom line."
8. Define corporate social responsibility and how to evaluate it along economic, legal, ethical, and discretionary criteria.
9. Discuss how ethical organizations are created through ethical leadership and organizational structures and systems.

Will You Be a Courageous Manager?

http: See It Online www.

INSTRUCTIONS: It probably won't happen right away, but soon enough in your duties as a new manager, you will be confronted with a situation that will test the strength of your moral beliefs or your sense of justice. Are you ready? To find out, think about times when you were part of a student or work group. To what extent does each of the following statements characterize your behavior? Please answer each of the following items as Mostly True or Mostly False for you.

	Mostly True	Mostly False
1. I risked substantial personal loss to achieve a vision.	______	______
2. I took personal risks to defend my beliefs.	______	______
3. I would say no to inappropriate things, even if I had a lot to lose.	______	______
4. My significant actions were linked to higher values.	______	______
5. I easily acted against the opinions and approval of others.	______	______
6. I quickly told people the truth as I saw it, even when it was negative.	______	______
7. I spoke out against group or organizational injustice.	______	______
8. I acted according to my conscience, even if I could lose stature.	______	______

SCORING AND INTERPRETATION: Each of these questions pertains to some aspect of displaying courage in a group situation, which often reflects a person's level of moral development. Count the number of checks for Mostly True. If you scored 5 or more, congratulations! That behavior would enable you to become a courageous manager about moral issues. A score below 4 indicates that you may avoid difficult issues or have not been in situations that challenged your moral courage.

Study the specific questions for which you scored Mostly True and Mostly False to learn more about your specific strengths and weaknesses. Think about what influences your moral behavior and decisions, such as need for success or approval. Study the behavior of others whom you consider to be moral individuals. How might you increase your courage as a new manager?

What does courage have to do with a chapter on ethics? If you read articles about the U.S. Secret Service prostitution scandal, the subprime mortgage mess in the United States, the implosion of financial icons such as Lehman Brothers and Bear Stearns, or the child sexual abuse case against former Pennsylvania State University defensive coordinator Jerry Sandusky, it soon becomes apparent. These organizations not only had managers behaving unethically, but they also had plenty of managers who thought the behavior was wrong but lacked the courage to challenge their superiors or call attention to the misdeeds.

Unfortunately, many managers slide into unethical or even illegal behavior simply because they don't have the courage to stand up and do the right thing. Lack of courage isn't the only problem, of course. Managers and organizations engage in unethical behavior for any number of reasons, such as personal ego, greed, or pressures to increase profits or appear successful. Mark Hurd was fired as CEO of Hewlett-Packard after an investigation revealed that he submitted inaccurate expense reports in an attempt to cover up an inappropriate relationship with a female contractor.[1] Interviews with people in the mortgage wholesale industry reveal that many wholesalers (who work for banks and buy loan applications from independent mortgage brokers) operated from pure greed.

HOT TOPIC

They frequently altered documents, coached brokers on how to skirt the rules, and even offered bribes and sexual favors to generate more loans—and thus more profits. And the CEO of Yahoo!, Scott Thompson, resigned under pressure after only four months on the job because reports revealed he had inaccurately claimed on his resume that he had a degree in computer science. Moreover, Thompson initially tried to blame the inaccuracy on the executive search firm that had placed him in an earlier job at PayPal. "The cover-up became worse than the crime," said one person familiar with the fiasco.[2]

This chapter expands on the ideas about environment, corporate culture, and the international environment discussed in Chapters 3 and 4. We first focus on the topic of ethical values, which builds on the idea of corporate culture. We look at the current ethical climate in corporate America, examine fundamental approaches that can help managers think through difficult ethical issues, and consider various factors that influence how managers make ethical choices. Understanding these ideas will help you build a solid foundation on which to base future decision making. We also examine organizational relationships to the external environment as reflected in corporate social responsibility. The final section of the chapter describes how managers build an ethical organization using codes of ethics and other organizational policies, structures, and systems.

What Is Managerial Ethics?

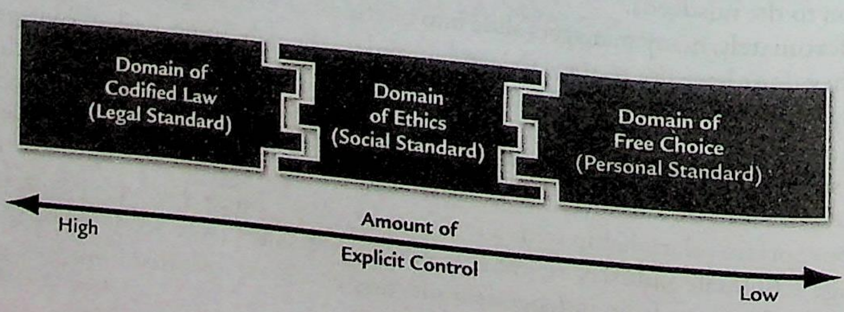
Ethics is difficult to define in a precise way. In a general sense, **ethics** is the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong. Ethics sets standards as to what is good or bad in conduct and decision making.[3] An ethical issue is present in a situation when the actions of a person or organization may harm or benefit others.[4] Yet ethical issues sometimes can be exceedingly complex. People may hold widely divergent views about the most ethically appropriate or inappropriate actions related to a situation.[5]

Consider the issue of competitive intelligence. Companies are increasingly using social media sites to learn more about their competition, some even going so far as to "friend" customers or employees of rivals and post seemingly innocuous questions to gather information that can provide them with a competitive advantage.[6] The laws regarding information gathering aren't clear-cut, and neither are opinions regarding the ethics of such tactics. What do you think? Whereas some people think any form of corporate spying is wrong, others think it is an acceptable way of learning about the competition.[7] Managers frequently face situations in which it is difficult to determine what is right. In addition, they might be torn between their misgivings and their sense of duty to their bosses and the organization.

Ethics can be more clearly understood when compared with behaviors governed by law and by free choice. Exhibit 5.1 illustrates that human behavior falls into three categories. The first is codified law, in which values and standards are written into the legal system and enforceable in the courts. In this area, lawmakers set rules that people and corporations

EXHIBIT 5.1

Three Domains of Human Action



must follow in a certain way, such as obtaining licenses for cars, paying corporate taxes, or following other local, state, and national laws. For example, former vice chairman of Walmart, Thomas Coughlin, pleaded guilty to fraud and tax evasion charges. Coughlin resigned in 2005 amid allegations that he defrauded the giant retailer out of hundreds of thousands of dollars, and the investigation was turned over to federal prosecutors.[8] Behaviors such as fraud and tax evasion are clearly against the law. The domain of free choice is at the opposite end of the scale and pertains to behavior about which the law has no say and for which an individual or organization enjoys complete freedom. An example is a manager's choice of where to buy a new suit, or an organization's choice of which of two well-qualified candidates to hire for an open position.

▶▶▶ Concept Connection


AP Photo/Charles Dharapak

Goldman Sachs CEO Lloyd Blankfein (center) was on the hot seat as he defended the firm's role in creating Abacus, a mortgage-backed investment fund allegedly designed to fail. While Goldman bet against the fund as a way to hedge against a weakening housing market, its trading side facilitated sales of Abacus to institutional customers. The maneuver helped Goldman weather the financial crisis but raised serious questions about its **managerial ethics**. Blankfein said that the firm's trading side is simply "a machine that lets people buy and sell what they want to buy and sell." Despite this defense, Goldman agreed in 2010 to pay $550 million to settle federal claims that it misled investors.

Between these domains lies the area of ethics. This domain has no specific laws, yet it does have standards of conduct based on shared principles and values about moral conduct that guide an individual or company. For example, it is not illegal for a manager like Harry Stonecipher, former CEO of Boeing, to have an extramarital affair with a female executive, but his behavior violated Boeing's code of ethical conduct, and Stonecipher was replaced. However, a manager who commits sexual harassment is not just being unethical but is breaking U.S. laws. Steven J. Heyer was fired as CEO of Starwood Hotels & Resorts Worldwide Inc. after the board received an anonymous letter that accused Heyer of inappropriately touching female employees and creating a hostile work environment.[9]

Many companies and individuals get into trouble with the simplified view that decisions are governed by either law or free choice. This view leads people to mistakenly assume that if it's not illegal, it must be ethical, as if there were no third domain.[10] A better option is to recognize the domain of ethics and accept moral values as a powerful force for good that can regulate behaviors both inside and outside organizations.

Remember This

- Managers face many pressures that can sometimes tempt them to engage in unethical behavior.
- **Ethics** is the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong.
- Just because managers aren't breaking the law doesn't necessarily mean they are being ethical.
- An ethical issue is present in any situation when the actions of an individual or organization may harm or benefit others.
- Managers sometimes need courage to stand up and do the right thing.

ENVIRONMENT 2

Ethical Management Today

Every decade seems to experience its share of scoundrels, but the pervasiveness of ethical lapses during the first decade or so of this century has been astounding. In Gallup's 2010 poll regarding the perception of business leaders, just 15 percent of respondents rated leaders' honesty and ethical standards as "high" or "very high."[11] Although public confidence in business managers in particular is at an all-time low, politics, sports, and nonprofit organizations also have been affected. Cycling star Lance Armstrong was stripped of his seven Tour de France championship titles after an investigation showed that he used performance-enhancing drugs and gave them to teammates. At the nonprofit Wyckoff Heights Medical Center, located in one of the poorest neighborhoods in Brooklyn, an investigation revealed a pattern of insider dealing that lavishly benefited top managers, board members, and local politicians, while damaging the organization to the point that it might be closed, further limiting health care options for the poor.[12] And the Catholic Church, already reeling from two decades of clergy sexual abuse scandals, was further tarnished when Pope Benedict XVI's butler, Paolo Gabriele, was arrested and charged with leaking the pope's confidential correspondence that revealed internal conflicts and accusations of cronyism and corruption.[13]

Take a Moment

Review your responses to the questions at the beginning of this chapter, which will give you some insight into your own level of manager courage. A high level of courage can help managers make ethical choices in the face of opposition or pressure from others.

In the business world, the names of once-revered corporations have become synonymous with greed, deceit, irresponsibility, and lack of moral conscience: AIG, Lehman Brothers, Enron, Bear Stearns, Countrywide, WorldCom. No wonder a poll found that 76 percent of people surveyed say corporate America's moral compass is "pointing in the wrong direction"; 69 percent say executives rarely consider the public good in making decisions; and a whopping 94 percent say executives make decisions based primarily on advancing their own careers.[14]

Managers carry a tremendous responsibility for setting the ethical climate in an organization and can act as role models for others.[15] Managers are responsible for seeing that resources are used to serve the interests of stakeholders, including shareholders, employees, customers, and society. Exhibit 5.2 details various ways that organizations sometimes behave unethically toward customers, employees, and other stakeholders.[16] Unfortunately, in today's environment, an overemphasis on pleasing shareholders may cause some managers to behave unethically toward customers, employees, and the broader society. Managers are under enormous pressure to meet short-term earnings goals, and some even use accounting gimmicks or other techniques to show returns that meet market expectations rather than ones that reflect true performance. Moreover, most executive compensation plans include hefty stock-based incentives, a practice that encourages managers to do whatever will increase the share price, even if it hurts the company in the long run. When managers "fall prey to the siren call of shareholder value," all other stakeholders may suffer.[17]

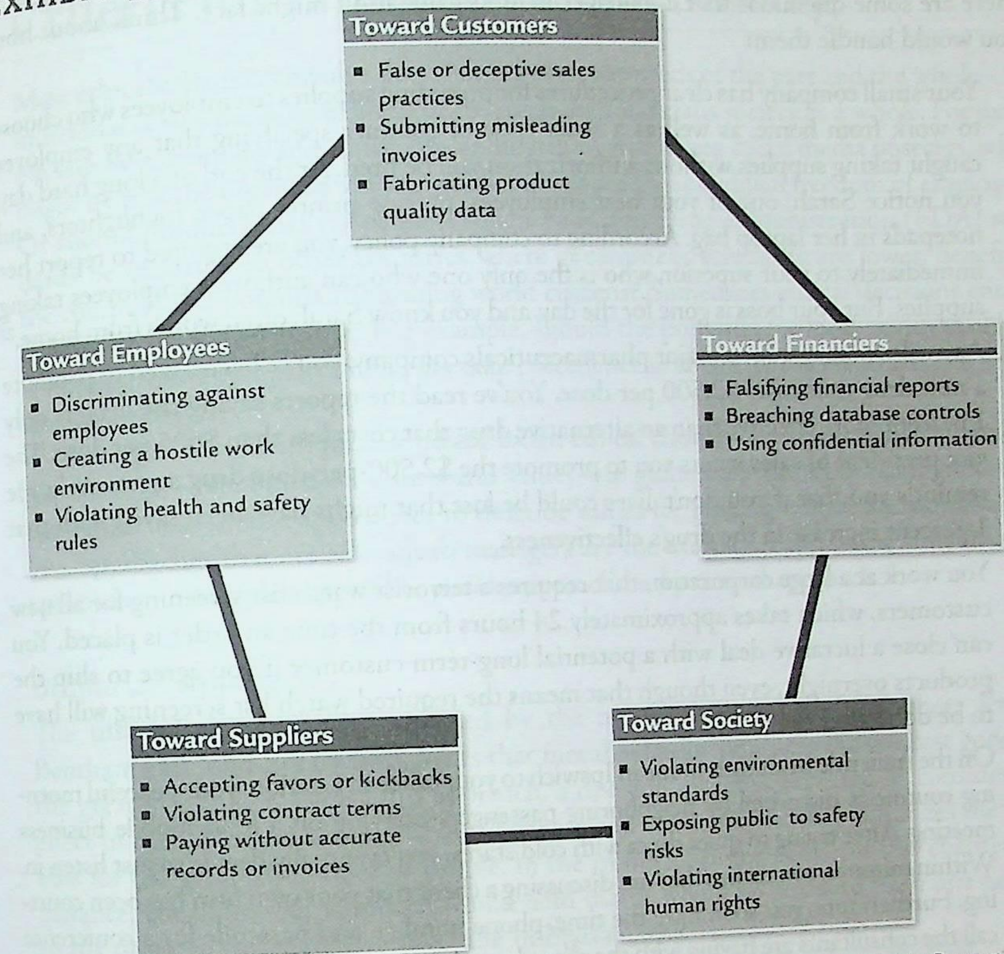
"The bottom line is that when shareholder value capitalism is paramount, the rest of us suffer. CEOs will readily dupe customers, sack employees, and spoil the environment to meet expectations."

— ROGER MARTIN, DEAN AND PROFESSOR AT THE ROTMAN SCHOOL OF MANAGEMENT, TORONTO

HOT TOPIC

Executive compensation has become a hot-button issue.[18] In 2011, the average pay of CEOs at large U.S. corporations was 380 times what the average employee was paid. A study by the Economic Policy Institute found that between 1978 and 2011, the average worker's annual pay grew 5.7 percent, while average CEO pay increased a whopping 726.7 percent.[19] The question of whether it is ethical for managers to rake in huge sums of money compared to other employees is of growing concern, and in general, the widespread ethical lapses of the past decade have put managers under increasing scrutiny.

EXHIBIT 5.2 Examples of Unethical and Illegal Organizational Behavior



SOURCE: Based on Muel Kaptein, "Developing a Measure of Unethical Behavior in the Workplace: A Stakeholder Perspective," *Journal of Management* 34, no. 5 (October 2008): 978–1008.

Remember This

- Managers are ethically responsible for seeing that organizational resources are used to serve the interests of stakeholders, including shareholders, employees, customers, and the broader society.
- Unethical managers seek to serve their own needs and interests at the expense of stakeholders.
- Confidence in business managers and leaders in all walks of life is at an all-time low.
- One hot-button ethical issue concerns excessive executive compensation.

Ethical Dilemmas: What Would You Do?

Being ethical is always about making decisions, and some issues are difficult to resolve. Although most companies have codes of ethics that specify expected behavior, disagreements and dilemmas about what is appropriate often occur. An **ethical dilemma** arises in a situation concerning right or wrong when values are in conflict.[20] Right and wrong cannot be clearly identified.

The individual who must make an ethical choice in an organization is the *moral agent*.[21] Here are some dilemmas that a manager in an organization might face. Think about how you would handle them:

1. Your small company has clear procedures for providing supplies to employees who choose to work from home, as well as a strict code of conduct specifying that any employee caught taking supplies without authorization will be fired. At the end of a long hard day, you notice Sarah, one of your best employees, putting printer paper, highlighters, and notepads in her laptop bag. According to company policy, you are required to report her immediately to your superior, who is the only one who can authorize employees taking supplies. But your boss is gone for the day, and you know Sarah often works from home.[22]
2. As a sales manager for a major pharmaceuticals company, you've been asked to promote a new drug that costs $2,500 per dose. You've read the reports saying the drug is only 1 percent more effective than an alternative drug that costs less than $625 per dose. The vice president of sales wants you to promote the $2,500-per-dose drug aggressively. He reminds you that if you don't, lives could be lost that might have been saved with that 1 percent increase in the drug's effectiveness.
3. You work at a large corporation that requires a terrorist watch list screening for all new customers, which takes approximately 24 hours from the time an order is placed. You can close a lucrative deal with a potential long-term customer if you agree to ship the products overnight, even though that means the required watch list screening will have to be done after the fact.[23]
4. On the train ride from your home in Ipswich to your office in London, your peaceful morning routine is disturbed by neighboring passengers carrying on a loud mobile business meeting. After trying to quiet them with cold stares, you eventually decide to just listen in. Within minutes, you realize they are discussing a client that your own firm has been courting. Furthermore, you soon have the time, phone number, and passcode for a conference call the consultants are having with the client later that day. It isn't your fault that they gave out that information in a public place, but you wonder what you should do with it.[24]

These kinds of dilemmas and issues fall squarely in the domain of ethics. How would you handle each of the above situations? Now consider the following hypothetical dilemma, which scientists are using to study human morality:[25]

- A runaway trolley is heading down the tracks toward five unsuspecting people. You're standing near a switch that will divert the trolley onto a siding, but there is a single workman on the siding who cannot be warned in time to escape and almost certainly will be killed. Would you throw the switch?
- Now, what if the workman is standing on a bridge over the tracks and you have to push him off the bridge to stop the trolley with his body in order to save the five unsuspecting people? (Assume that his body is large enough to stop the trolley, and yours is not.) Would you push the man, even though he almost certainly will be killed?

These dilemmas show how complex questions of ethics and morality can sometimes be. In *Time* magazine's readers' poll, 97 percent of respondents said they could throw the switch (which would almost certainly lead to the death of the workman), but only 42 percent said they could actually push the man to his death.[26]

Remember This

- Ethics is about making choices.
- Most managers encounter ethical dilemmas that are tough to resolve.
- An **ethical dilemma** is a situation in which all alternative choices or behaviors have potentially negative consequences. Right and wrong cannot be clearly distinguished.

Criteria for Ethical Decision Making

Most ethical dilemmas involve a conflict between the needs of the part and the whole—the individual versus the organization or the organization versus society as a whole. For example, should a company scrutinize job candidates' or employees' social media postings, which might benefit the organization as a whole but reduce the individual freedom of employees? Or should products that fail to meet tough Food and Drug Administration (FDA) standards be exported to other countries where government standards are lower, benefiting the company but potentially harming world citizens? Sometimes ethical decisions entail a conflict between two groups. For example, should the potential for local health problems resulting from a company's effluents take precedence over the jobs it creates as the town's leading employer?

Managers faced with these kinds of tough ethical choices often benefit from a normative strategy—one based on norms and values—to guide their decision making. Normative ethics uses several approaches to describe values for guiding ethical decision making. Five approaches that are relevant to managers are the utilitarian approach, individualism approach, moral-rights approach, justice approach, and practical approach.[27]

Utilitarian Approach

The **utilitarian approach**, espoused by the nineteenth-century philosophers Jeremy Bentham and John Stuart Mill, holds that moral behavior produces the greatest good for the greatest number. Under this approach, a decision maker is expected to consider the effect of each decision alternative on all parties and select the one that optimizes the benefits for the greatest number of people. In the trolley dilemma earlier in this chapter, for instance, the utilitarian approach would hold that it would be moral to push one person to his death in order to save five. The utilitarian ethic is cited as the basis for the recent trend among companies to monitor employee use of the Internet and police personal habits such as alcohol and tobacco consumption, because such behavior affects the entire workplace.[28]

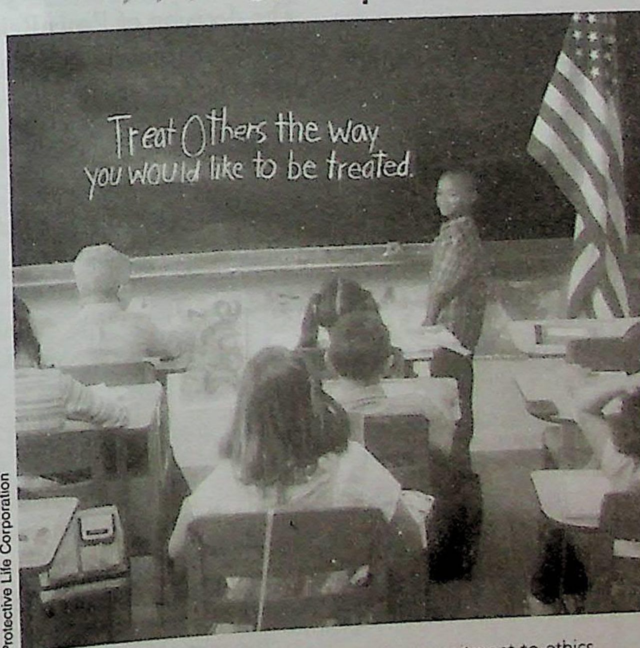
Individualism Approach

The **individualism approach** contends that acts are moral when they promote the individual's best long-term interests.[29] In theory, with everyone pursuing self-direction, the greater good is ultimately served because people learn to accommodate each other in their own long-term interest. Individualism is believed to lead to honesty and integrity because that works best in the long run. Lying and cheating for immediate self-interest just causes business associates to lie and cheat in return. Thus, proponents say, individualism ultimately leads to behavior toward others that fits standards of behavior that people want toward themselves.[30] However, because individualism is easily misinterpreted to support immediate self-gain, it is not popular in the highly organized and group-oriented society of today.

Moral-Rights Approach

The **moral-rights approach** asserts that human beings have fundamental rights and liberties that cannot be taken away by an individual's decision. Thus, an ethically correct

▶▶▶ **Concept Connection**



Protective Life Corporation

Protective Life Corporation shows its commitment to ethics through its corporate strategy: "Offer great products at highly competitive prices and provide the kind of attentive service we'd hope to get from others." Treating others the way you want to be treated is one approach to making ethically responsible decisions and handling **ethical dilemmas**. However, insurance companies often have to rely on a **utilitarian approach** to ethical decision making that considers how to provide the greatest good to the greatest number of policyholders.

decision is one that best maintains the rights of those affected by it. To make ethical decisions, managers need to avoid interfering with the fundamental rights of others, such as the right to privacy, the right of free consent, or the right to freedom of speech. Performing experimental treatments on unconscious trauma patients, for example, might be construed to violate the right to free consent. A decision to monitor employees' nonwork activities violates the right to privacy. The right of free speech would support whistle-blowers who call attention to illegal or inappropriate actions within a company.

Justice Approach

The **justice approach** holds that moral decisions must be based on standards of equity, fairness, and impartiality. Three types of justice are of concern to managers. **Distributive justice** requires that different treatment of people not be based on arbitrary characteristics. For example, men and women should not receive different salaries if they have the same qualifications and are performing the same job. **Procedural justice** requires that rules be administered fairly. Rules should be clearly stated and consistently and impartially enforced. **Compensatory justice** argues that individuals should be compensated for the cost of their injuries by the party responsible. The justice approach is closest to the thinking underlying the domain of law in Exhibit 5.1 because it assumes that justice is applied through rules and regulations. Managers are expected to define attributes on which different treatment of employees is acceptable.

Practical Approach

The approaches discussed so far presume to determine what is "right" or good in a moral sense. However, as has been mentioned, ethical issues are frequently not clear-cut and there are disagreements over what is the ethical choice. The **practical approach** sidesteps debates about what is right, good, or just and bases decisions on prevailing standards of the profession and the larger society, taking the interests of all stakeholders into account.[31] The decision of Paula Reid, the manager who set the U.S. Secret Service prostitution scandal in motion by reporting the misconduct of agents in Cartagena, Colombia, was based largely on the practical approach.

Innovative Way

Paula Reid, U.S. Secret Service

Put aside the issue of whether it is morally wrong to hire a prostitute, particularly in a country where prostitution is legal in certain areas. The bottom line for Paula Reid is that visits to strip clubs, heavy drinking, and payments to prostitutes are not acceptable behavior for Secret Service agents charged with protecting the president of the United States.

"If every boss was Paula Reid," said a former agent, "the Secret Service would never have a problem. It would be a lot more boring, but never a problem." Reid, the new supervising manager for the Miami office, a prestigious division that oversees the South American region, acted swiftly when she received a report of a disturbance at the hotel where agents preparing for President Barack Obama's visit to Cartagena were staying. Based on information from the hotel manager, Reid swiftly rounded up a dozen agents, ordered them out of the country, and notified her superiors that she had found evidence of "egregious misconduct." She acted in spite of a potential internal backlash because she believed the actions of the agents had both hurt the agency's reputation and damaged its ability to fulfill its protective and investigative missions.

The resulting scandal threw the Secret Service into turmoil and put Director Mark Sullivan and other managers on the hot seat. Four of the agents dismissed for engaging in inappropriate conduct have since challenged their dismissals, saying they are being made scapegoats for behavior that the agency has long tolerated so long as there is no breach of operational security. Yet, for Reid and others, the "boys will be boys" mentality is not acceptable in today's world. According to former director Ralph Basham, there are many former and current agents who are "deeply ashamed of what these people did."[32]

With the practical approach, a decision would be considered ethical if it is one that would be considered acceptable by the professional community, one that the manager would not hesitate to publicize on the evening news, and one that a person would typically feel comfortable explaining to family and friends. One Secret Service agency director offered this practical advice to his staff in a recent memo: "You should always assume you are being watched when on an official assignment. Do not put yourself in a situation in your personal or professional life that would cause embarrassment to you, your family, or the Secret Service."[33] Using the practical approach, managers may combine elements of the utilitarian, moral rights, and justice approaches in their thinking and decision making. For example, one expert on business ethics suggests managers can ask themselves the following five questions to help resolve ethical dilemmas.[34] Note that these questions cover a variety of the approaches discussed above.

1. What's in it for me?
2. What decision would lead to the greatest good for the greatest number?
3. What rules, policies, or social norms apply?
4. What are my obligations to others?
5. What will be the long term impact for myself and important stakeholders?

Remember This

- Most ethical dilemmas involve a conflict between the interests of different groups or between the needs of the individual versus the needs of the organization.
- Managers can use various approaches based on norms and values to help them make ethical decisions.
- The **utilitarian approach** to ethical decision making says that the ethical choice is the one that produces the greatest good for the greatest number.
- The **individualism approach** suggests that actions are ethical when they promote the individual's best long-term interests, because with everyone pursuing self-interest, the greater good is ultimately served.
- The individualism approach is not considered appropriate today because it is easily misused to support one's personal gain at the expense of others.
- Some managers rely on a **moral-rights approach**, which holds that ethical decisions are those that best maintain the fundamental rights of the people affected by them.
- The **justice approach** says that ethical decisions must be based on standards of equity, fairness, and impartiality.
- **Distributive justice** requires that different treatment of individuals not be based on arbitrary characteristics.
- **Procedural justice** holds that rules should be clearly stated and consistently and impartially enforced.
- **Compensatory justice** argues that individuals should be compensated for the cost of their injuries by the party responsible, and individuals should not be held responsible for matters over which they have no control.
- Many managers also use the **practical approach**, which sidesteps debates about what is right, good, or just, and bases decisions on prevailing standards of the profession and the larger society, taking the interests of all stakeholders into account.

The Individual Manager and Ethical Choices

A number of factors influence a manager's ability to make ethical decisions. Individuals bring specific personality and behavioral traits to the job. Personal needs, family influence, and religious background all shape a manager's value system. In addition, the corporate culture and pressures from superiors and colleagues can also influence an individual's ethical choices. A recent study found that organizational pressures can indeed induce employees to behave unethically. Moreover, when people experience organizational pressure to go against their sense of what is right, they typically become frustrated and emotionally exhausted.[35] Clearly, unethical behavior inhibits a person's ability to do his or her best for the company, as well

EXHIBIT 5.3 Three Levels of Personal Moral Development

Level 1 Preconventional	Level 2 Conventional	Level 3 Postconventional
Follows rules to avoid punishment. Acts in own interest. Obedience for its own sake.	Lives up to expectations of others. Fulfills duties and obligations of social system. Upholds laws.	Follows self-chosen principles of justice and right. Aware that people hold different values and seeks creative solutions to ethical dilemmas. Balances concern for individual with concern for common good.
Self-Interest	Societal Expectations	Internal Values

Leader Style:	Autocratic/coercive	Guiding/encouraging, team oriented	Transforming, or servant leadership
Employee Behavior:	Task accomplishment	Work group collaboration	Empowered employees, full participation

SOURCE: Based on L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Developmental Approach," in *Moral Development and Behavior: Theory, Research, and Social Issues*, ed. T. Lickona (New York: Holt, Rinehart, and Winston, 1976), pp. 31–53; and Jill W. Graham, "Leadership, Moral Development, and Citizenship Behavior," *Business Ethics Quarterly* 5, no. 1 (January 1995): 43–54.

as hindering the individual's personal and professional well-being. Specific personality characteristics, such as ego strength, self-confidence, and a strong sense of independence, may enable managers to make more-ethical choices despite outside pressures and personal risks.

One important personal trait is the stage of moral development.[36] A simplified version of one model of personal moral development is shown in Exhibit 5.3.

At the *preconventional level*, individuals are concerned with external rewards and punishments and obey authority to avoid detrimental personal consequences. In an organizational context, this level may be associated with managers who use an autocratic or coercive leadership style, with employees oriented toward dependable accomplishment of specific tasks.

At level two, called the *conventional level*, people learn to conform to the expectations of good behavior as defined by colleagues, family, friends, and society. Meeting social and interpersonal obligations is important. Work-group collaboration is the preferred manner of accomplishing organizational goals, and managers use a leadership style that encourages interpersonal relationships and cooperation.

At the *postconventional*, or *principled* level, individuals are guided by an internal set of values based on universal principles of justice and right and will even disobey rules or laws that violate these principles. Internal values become more important than the expectations of significant others. One recent example of the postconventional or principled approach was the lifeguard in Hallandale Beach, Florida, who was fired for leaving his assigned zone to help a drowning man. Tomas Lopez rushed

Concept Connection

In many cases, the people of Africa have relatively few natural resources to use in creating goods to sell. Fortunately, some business leaders, functioning at the **postconventional level of moral development**, have been inspired to help African entrepreneurs create opportunities for themselves, either through microfinancing or through nonprofit organizations. The Africa InKNITiative is just one example. The organization provides Ugandan widows and refugees with raw materials for knitting scarves out of old T-shirts. The scarves are then shipped to the United States, where they're sold, and the proceeds go back to the women in Uganda.

Courtesy of African inKNITiative

to offer assistance when he saw a man struggling, even though his supervisor ordered him not to leave his zone and to call 911 instead. "What he did was his own decision," said manager Susan Ellis. "He knew the rules." The company cited liability issues as the reason for the rules, and later offered Lopez his job back (he refused).[37] When managers operate from this highest level of development, they use transformative or servant leadership, focusing on the needs of followers and encouraging others to think for themselves and to engage in higher levels of moral reasoning. Employees are empowered and given opportunities for constructive participation in governance of the organization.

The great majority of managers operate at level two, meaning their ethical thought and behavior is greatly influenced by their superiors, colleagues, and other significant people in the organization or industry. A few have not advanced beyond level one. Only about 20 percent of American adults reach the level-three postconventional stage of moral development. People at level three are able to act in an independent, ethical manner regardless of expectations from others inside or outside the organization. Managers at level three of moral development will make ethical decisions whatever the organizational consequences are for them.

Take a Moment

Complete the New Manager Self-Test below to assess your capacity for servant leadership, which is related to a high level of moral development.

New Manager Self-Test

Servant Leadership

Managers differ in how they view other people and the tactics they use to get things done. Respond to the items below based on how you view yourself and others. Please answer whether each item is Mostly True or Mostly False for you.

	Mostly True	Mostly False
1. My actions meet the needs of others before my own needs.	____	____
2. I am always offering a helping hand to those around me.	____	____
3. I give away credit and recognition to others.	____	____
4. I tend to feel competitive with my coworkers.	____	____
5. I often interrupt someone to make my point.	____	____
6. I encourage the growth of others, expecting nothing in return.	____	____
7. I like to be of service to others.	____	____
8. Giving makes me happier than receiving.	____	____
9. I reach out to orient new people even though it is not required.	____	____

Scoring and Interpretation: Sum questions 1–3 and 6–9 with one point for each Mostly True, and sum questions 4–5 with one point for each Mostly False. Your score pertains to a concept that was introduced by Robert Greenleaf in his book, *Servant Leadership.* Servant leadership means that managers try to place service to others before self-interest, listen as a way to care about others, and nourish others to help them become whole. This approach to management was based on Greenleaf's Quaker beliefs. A score of 7–9 would be considered high on servant leadership, and 0–3 low, with a score of 4–6 in the middle range. How do you feel about your score? Are you attracted to the qualities of servant leadership, or would you prefer a different approach to managing others?

Source: Based on Robert Greenleaf, *Servant Leadership: A Journey into the Nature of Legitimate Power and Greatness*, 25th anniversary ed. (New York: Paulist Press, 2002).

Remember This

- Organizational pressures can influence people to go against their own sense of right or wrong, and the resulting stress can lead to mental exhaustion and burnout.
- Personality characteristics, family influence, religious background, and other factors influence a manager's ability to make ethical choices.
- One important factor is whether a manager is at a preconventional, conventional, or postconventional level of moral development.
- Most managers operate at a *conventional level*, conforming to standards of behavior expected by society.
- Only about 20 percent of adults reach the *postconventional level* and are able to act in an independent, ethical manner regardless of the expectations of others.

What Is Corporate Social Responsibility?

Now let's turn to the issue of corporate social responsibility. In one sense, the concept of social responsibility, like ethics, is easy to understand: It means distinguishing right from wrong and doing right. It means being a good corporate citizen. The formal definition of **corporate social responsibility (CSR)** is management's obligation to make choices and take actions that will contribute to the welfare and interests of society, not just the organization.[38]

As straightforward as this definition seems, CSR can be a difficult concept to grasp because different people have different beliefs as to which actions improve society's welfare.[39] To make matters worse, social responsibility covers a range of issues, many of which are ambiguous with respect to right or wrong. If a bank deposits the money from a trust fund into a low-interest account for 90 days, from which it makes a substantial profit, is it being a responsible corporate citizen? How about two companies engaging in intense competition? Is it socially responsible for the stronger corporation to drive the weaker one out of business or into a forced merger? Or consider General Motors (GM), Kmart, Lehman Brothers, and the numerous other companies that have declared bankruptcy in recent years—which is perfectly legal—and thus avoided having to meet their mounting financial obligations to suppliers, labor unions, or competitors. These examples contain moral, legal, and economic complexities that make socially responsible behavior hard to define.

Organizational Stakeholders

One reason for the difficulty of understanding and applying CSR is that managers must confront the question, "Responsibility to whom?" Recall from Chapter 3 that the organization's environment consists of several sectors in both the task and the general environment. From a social responsibility perspective, enlightened organizations view the internal and external environment as a variety of stakeholders.

A **stakeholder** is any group or person within or outside the organization that has some type of investment or interest in the organization's performance and is affected by the organization's actions (employees, customers, shareholders, and so forth). Each stakeholder has a different criterion of responsiveness because it has a different interest in the organization.[40] There is growing interest in a technique called **stakeholder mapping**, which basically provides a systematic way to identify the expectations, needs, importance, and relative power of various stakeholders, which may change over time.[41] Stakeholder mapping helps managers identify or prioritize the key stakeholders related to a specific issue or project. For instance, Gap Inc., struggling to cope with the turmoil created after the company was targeted by protesters for using contractors that polluted the environment and engaged in child labor practices, decided to use mapping to identify key stakeholders with which the firm could develop deeper, transparent relationships.

Innovative Way

Gap Inc.

When reports surfaced in 2009 that a contractor in Lesotho, Africa, making clothing for Gap Inc. and other U.S. companies was dumping toxic materials into local landfills and discharging chemicals into the Caledon River, Gap managers swung into action. A similar crisis related to child labor and unsafe conditions ten years earlier had resulted in global protests that raged for months and tarnished Gap's reputation, damaged employee morale, and devastated the firm's performance. In contrast, the 2009 Lesotho story died down quickly and Gap came out stronger on the other side.

What happened in those ten years to make a difference? It's certainly not that the public was less outraged by the stories of poor children being harmed by dangerous chemicals while playing near the river or scavenging through refuse. The result was different this time because Gap managers had carefully cultivated open relationships with labor groups, human rights organizations, trade unions, nongovernmental organizations, and other stakeholders that enabled them to swing into action immediately and take specific steps to solve the problem. In the past, managers' approach would have been to deny responsibility and blame the subcontractor. With the Lesotho incident, though, Gap's top leaders immediately stepped forward to declare the company's commitment to fair and safe conditions and outline the steps it would take. The company later joined Levi Strauss, which also had clothing made by this contractor, to issue a statement detailing actions that had been taken or were in progress. Because of the relationships Gap had developed with numerous stakeholder groups, the company had the support of labor and human rights organizations, which praised managers' commitment and actions.

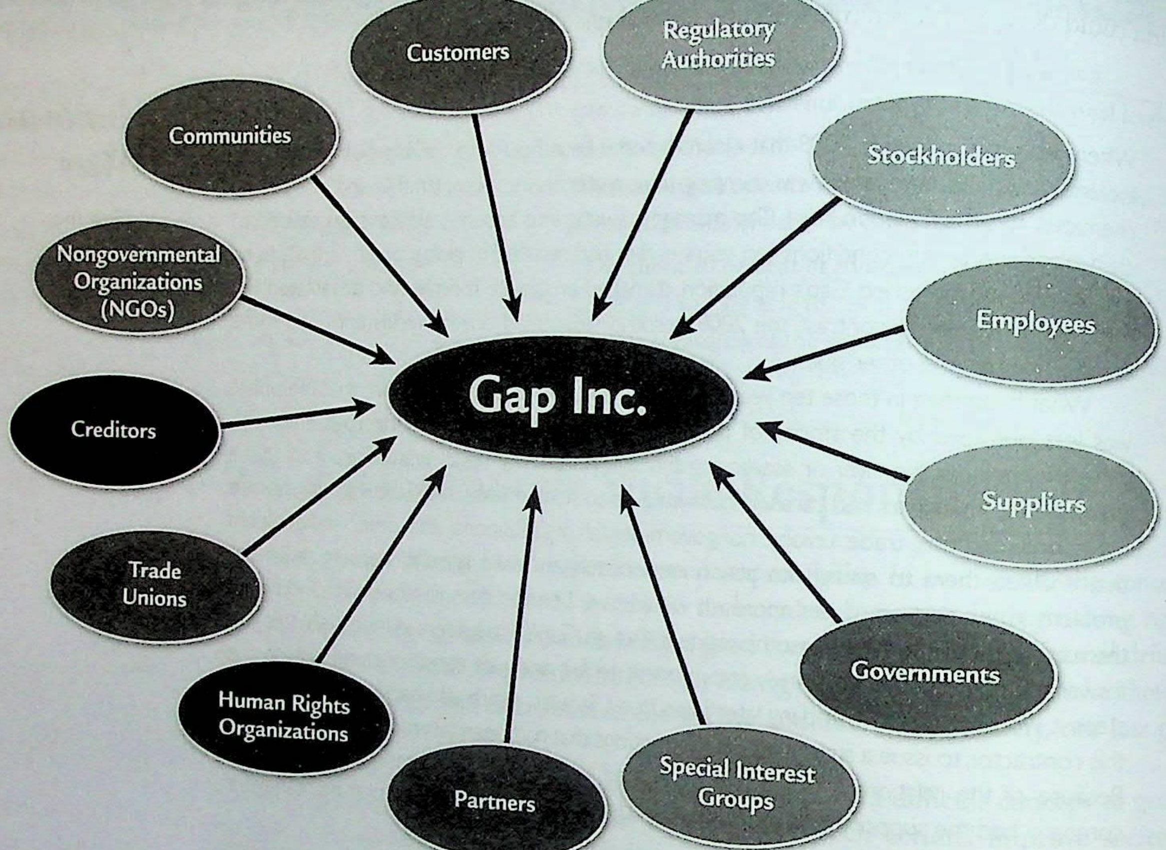
Gap embarked on the process of engaging with key stakeholders because even though the company had made a strong commitment to social and environmental responsibility since 1992, the previous approach wasn't working. Multimillion-dollar efforts at solving ethical problems in the supply chain had failed. So, managers started by drawing a stakeholder map that listed as many stakeholders as possible, then ranked them by their importance. Starting with mapping gave managers a way to focus their efforts and join with the most influential stakeholders to improve labor practices. It was a long and difficult journey, but the results have been well worth it. The company has received awards and public recognition as a leader in ethics and social responsibility.[42]

The global supply chain is a source of ongoing challenges for managers today. As Dan Rees, former director of the Ethical Trading Initiative (ETI) said, "It is not a crime to find child labor in your supply chain. What is important is what you do about it when you find out." By using stakeholder mapping and cultivating open, trust-based relationships with key stakeholders, Gap has ensured that managers are able to do the right thing swiftly, sometimes even turning crises into opportunities.[43]

Exhibit 5.4 illustrates important stakeholders for a large organization such as Gap. Most organizations are influenced by a similar variety of stakeholder groups. Investors and shareholders, employees, customers, and suppliers are considered primary stakeholders, without whom the organization cannot survive. Investors, shareholders, and suppliers' interests are served by managerial efficiency—that is, use of resources to achieve profits. Employees expect work satisfaction, pay, and good supervision. Customers are concerned with decisions about the quality, safety, and availability of goods and services. When any primary stakeholder group becomes seriously dissatisfied, the organization's viability is threatened.[44]

Other important stakeholders are the government and the community, which have become increasingly important in recent years. Most corporations exist only under the proper

EXHIBIT 5.4 Major Stakeholders Relevant to Gap Inc.



SOURCE: Based on information in D. Wheeler, B. Colbert, and R. E. Freeman, "Focusing on Value: Reconciling Corporate Social Responsibility, Sustainability, and a Stakeholder Approach in a Networked World," *Journal of General Management* 28, no. 3 (Spring 2003): 1–28; J. E. Post, L. E. Preston, and S. Sachs, "Managing the Extended Enterprise: The New Stakeholder View," *California Management Review* 45, no. 1 (Fall 2002): 6–28; and N. Craig Smith, Sean Ansett, and Lior Erex, "How Gap Inc. Engaged with Its Stakeholders," *MIT Sloan Management Review* 52, no. 4 (Summer 2011): 69–76.

charter and licenses and operate within the limits of safety laws, environmental protection requirements, antitrust regulations, antibribery legislation, and other laws and regulations in the government sector. Government regulations affecting business are increasing because of recent events. The community includes local governments, the natural environment, and the quality of life provided for residents. For many companies such as Gap, trade unions and human rights organizations are highly important stakeholders. Special interest groups may include trade associations, political action committees, professional associations, and consumerists. One special interest group of particular importance today is the green movement.

The Green Movement

The year was 2004, and Jeffrey Immelt, CEO of General Electric (GE), had just presented a plan for a "green" business initiative to 35 top GE executives. They voted it down. But Immelt, in a rare move, overruled them, and Ecomagination was born. Today, GE's Ecomagination is one of the world's most widely recognized corporate green programs. It has not only cut GE's greenhouse gas emissions by 30 percent but also added innovative products that are generating billions in annual revenue.[45]

Going green has become a new business imperative, driven by shifting social attitudes, new governmental policies, climate changes, and information technology (IT) that quickly spreads any news of a corporation's negative impact on the environment. A recent survey

Green Power

Ecomagination

The question hovering on the horizon for enlightened CEOs such as **General Electric's** Jeff Immelt: *How do we apply technology and sustainability to addressing the economics of scarcity?* Immelt had only to tap into the historical precedent of innovation and imagination set by the creative genius of GE founder Thomas Edison. The result was GE's major commitment to social responsibility through a green technology movement.

GE became a CSR pioneer by initiating *The Ecomagination Campaign,* a plan that packs a punch. Immelt doubled R&D funding to establish new labs and load them with Ph.D.s undertaking innovative sustainability research. The company also created an Ecomagination Advisory Council fueled by "dreaming sessions" that allowed customers and stakeholders to envision the future and the products and services that can improve those futures while providing an innovative business opportunity for GE. Founder Edison must be smiling.

Source: Philip Mirvis, Bradley Googins, and Sylvia Kinnicutt, "Vision, Mission, Values: Guideposts to Sustainability," *Organizational Dynamics* 39 (2010): 316–324.

found that 90 percent of Americans agree that there are important "green" issues and problems, and 82 percent think that businesses should implement environmentally friendly practices.[46] Each chapter of this text contains a Green Power example that highlights what companies are doing to improve their environmental performance.

HOT TOPIC

Energy is an area of ongoing concern for the green movement, as reflected in the conflict associated with the proposed building of the Keystone XL pipeline that would add a link running from the oil sands of Alberta, Canada, to refineries on the Texas coast of the Gulf of Mexico. Nearly six in ten Americans polled are in favor of the U.S. government approving the project, believing that it will create jobs without causing significant environmental damage. But green groups are up in arms, targeting Keystone and the entire oil sands industry, which releases 30 million tons of carbon dioxide a year into the atmosphere and will release more as the industry grows. Opponents point out that the "well-to-gas tank" emissions of Canadian oil sands are about twice as high as the average barrel of U.S. imported crude oil. Supporters insist it is better to tap the oil sands of Canada than to continue helping oil-rich countries that may abuse both people and the environment.[47]

▸▸▸ Concept Connection

Zuma/Zuma Wire Service/Alamy Limited

As early proponents of the **green movement**, Ahmed and Reem Rahim founded Numi Tea in Oakland, California, with a vision to honor the planet and its people. They use nothing but organically grown teas and work only with fair-trade vendors. The company's packaging and all other aspects of its production operations are designed to reduce Numi's impact on the environment.

SUSTAINABILITY AND THE TRIPLE BOTTOM LINE

Some corporations are embracing an idea called *sustainability* or *sustainable development.* **Sustainability** refers to economic development that generates wealth and meets the needs of the current generation while preserving the environment and society so future generations can meet their needs as well.[48] With a philosophy of sustainability, managers weave environmental and social concerns into every strategic decision so that financial goals are achieved in a way that is socially and environmentally responsible. Managers in organizations that embrace sustainability measure their success in terms of a triple bottom line. The term **triple bottom line** refers to measuring an organization's social performance, its environmental performance, and its financial performance. This is sometimes called the three Ps: People, Planet, and Profit.[49]

The People part of the triple bottom line looks at how socially responsible the organization is in terms of fair labor practices, diversity, supplier relationships, treatment of employees, contributions to the community, and so forth. The Planet aspect measures the organization's commitment to environmental sustainability. The third P, of course, looks at the organization's profit, the financial bottom line. Based on the principle that what you measure is what you strive for and achieve, using a triple bottom line approach to measuring performance ensures that managers take social and environmental factors into account, rather than blindly pursuing profit no matter the cost to society and the natural environment.

Remember This

- **Corporate social responsibility** refers to the obligation of organizational managers to make choices and take actions that will enhance the welfare and interests of society, as well as the organization.
- Different stakeholders have different interests in the organization and thus different criteria for social responsiveness.
- The term **stakeholder** refers to any group or person within or outside the organization that has some type of investment or interest in the organization's performance.
- Shareholders, employees, customers, and suppliers are considered primary stakeholders, without whom the organization could not survive.
- Government, the community, and special interest groups are also important stakeholders.
- **Stakeholder mapping** provides a systematic way to identify the expectations, needs, importance, and relative power of various stakeholders.
- The *green movement* is a special interest group of particular importance today.
- **Sustainability** refers to economic development that generates wealth and meets the needs of the current population while preserving society and the environment for the needs of future generations.
- Companies that embrace sustainability measure performance in terms of financial performance, social performance, and environmental performance, referred to as the **triple bottom line.**
- A survey found that 90 percent of Americans agree that there are important "green" issues and problems, and 82 percent think that businesses should implement environmentally friendly practices.

Evaluating Corporate Social Responsibility

"For a long time, people believed that the only purpose of industry was to make a profit. They are wrong. Its purpose is to serve the general welfare."

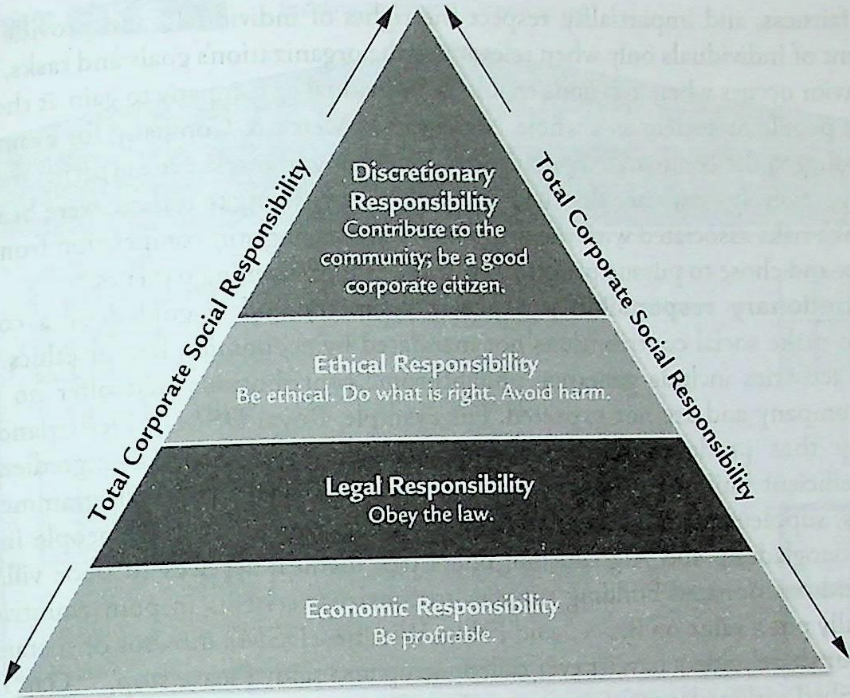
— HENRY FORD, SR. (1863–1947), AMERICAN INDUSTRIALIST

A model for evaluating corporate social performance is presented in Exhibit 5.5. The model indicates that total corporate social responsibility can be divided into four primary criteria: economic, legal, ethical, and discretionary responsibilities.[50] These four criteria fit together to form the whole of a company's social responsiveness.

The first criterion of social responsibility is *economic responsibility*. The business institution is, above all, the basic economic unit of society. Its responsibility is to produce the goods and services that society wants and to maximize profits for its owners and shareholders. Economic responsibility, carried to the extreme, is called the *profit-maximizing view*, advocated by Nobel economist Milton Friedman. This view argues that the corporation should be operated on a profit-oriented basis, with its sole mission to increase its profits so long as it stays within the rules of the game.[51] The purely profit-maximizing view is no longer considered an adequate criterion of

EXHIBIT 5.5

Criteria of Corporate Social Performance



SOURCE: Based on Archie B. Carroll, "A Three-Dimensional Conceptual Model of Corporate Performance," *Academy of Management Review* 4 (1979): 499; A. B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Corporate Stakeholders," *Business Horizons* 34 (July–August 1991): 42; and Mark S. Schwartz and Archie B. Carroll, "Corporate Social Responsibility: A Three-Domain Approach," *Business Ethics Quarterly* 13, no. 4 (2003): 503–530.

social performance in Canada, the United States, and Europe. This approach means that economic gain is the only responsibility and can lead companies into trouble, as recent events in the mortgage and finance industries have clearly shown.

Legal responsibility defines what society deems as important with respect to appropriate corporate behavior.[52] That is, businesses are expected to fulfill their economic goals within the framework of legal requirements imposed by local town councils, state legislators, and federal regulatory agencies. Examples of illegal acts by corporations include corporate fraud, intentionally selling defective goods, performing unnecessary repairs or procedures, deliberately misleading consumers, and billing clients for work not done. Organizations that knowingly break the law are poor performers in this category. Walmart, for example, is currently embroiled in a bribery scandal amid allegations that the company's largest foreign subsidiary, Walmart de Mexico, paid bribes to local officials and covered up the wrongdoing to corner every edge of the market in that country. Investigators found "reasonable suspicion" that Walmart managers had violated U.S. and Mexican laws and called for a broader inquiry into the allegations.[53]

Ethical responsibility includes behaviors that are not necessarily codified into law and may not serve the corporation's direct economic interests. As described earlier in this chapter, to be *ethical*, organization decision makers should act with

▸▸▸ Concept Connection

RGtimeline/Shutterstock.com

In the United States, employers have a **legal responsibility** to comply with laws designed to protect workers, such as the health and safety laws enforced by the Occupational Safety and Health Administration (OSHA). For example, companies that run manufacturing plants like this one are required to provide employees with safety goggles, earplugs, hard hats, and other protective gear as needed for various jobs.

equity, fairness, and impartiality, respect the rights of individuals, and provide different treatment of individuals only when relevant to the organization's goals and tasks.[54] *Unethical* behavior occurs when decisions enable an individual or company to gain at the expense of other people or society as a whole. Managers at Merck & Company, for example, seriously damaged the company's reputation by continuing to market the arthritis medication Vioxx aggressively even after they had information suggesting that there were heart attack and stroke risks associated with the drug. Merck was facing stiff competition from Pfizer's Celebrex and chose to pursue profits, even at the risk of harming patients.

Discretionary responsibility is purely voluntary and is guided by a company's desire to make social contributions not mandated by economics, law, or ethics. Discretionary activities include generous philanthropic contributions that offer no payback to the company and are not expected. For example, Royal DSM, a Netherlands-based company that produces nutritional supplements, pharmaceutical ingredients, and energy-efficient building products, partners with the World Food Programme to give vitamins, supplements, and fortified food products to malnourished people in Nepal, Kenya, Bangladesh, and Afghanistan; offers free medical services to poor villagers in India; and has donated building supplies to construct schools in poor countries. "We don't really put a value on it. . . . ," said Fokko Wientjes, DSM's director of sustainability. "But shareholders haven't ever called me up and said, 'Please stop.'"[55] Gap Inc., described earlier, donates 50 percent of profits on a particular line of "Red"-branded Gap products to lead U2 singer Bono's Red campaign against HIV/AIDS.[56] As another example, a week after a massive earthquake and tsunami devastated Japan, corporations had pledged about $151 million in cash and in-kind donations for disaster relief.[57] Discretionary responsibility is the highest criterion of social responsibility because it goes beyond societal expectations to contribute to the community's welfare.

Take@Moment

Read the Ethical Dilemma for Chapter 5 on pages 199–200 that pertains to legal and ethical responsibilities.

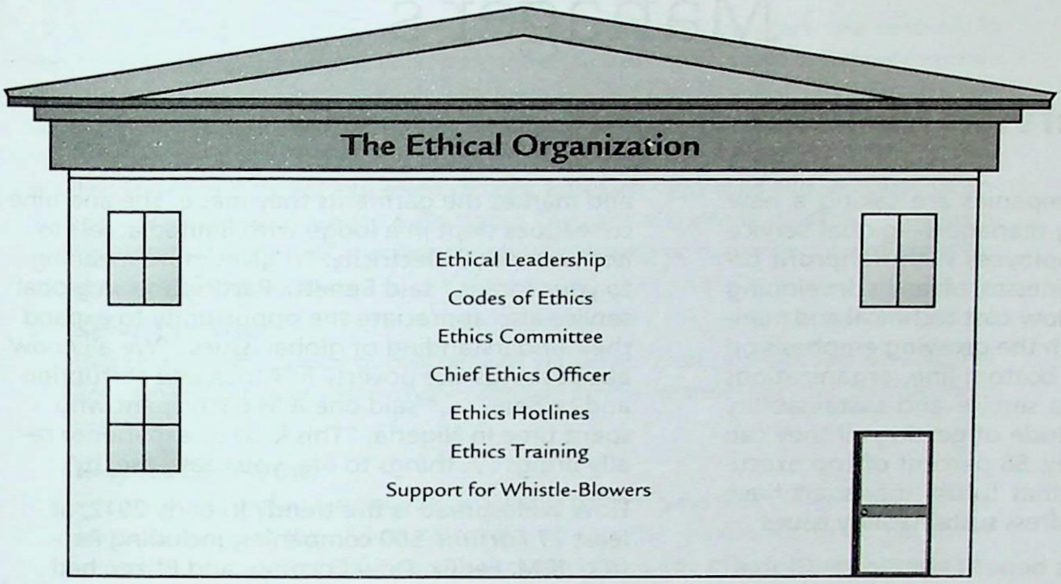
Remember This

- The model for evaluating a company's social performance uses four criteria: economic, legal, ethical, and discretionary.
- Companies may get into trouble when they use economic criteria as their only measure of responsibility, sometimes called the *profit-maximizing* view.
- **Discretionary responsibility** is purely voluntary and is guided by the organization's desire to make social contributions not mandated by economics, laws, or ethics.
- Corporations that sent generous donations to Japan following the devastating earthquake and tsunami were practicing discretionary responsibility.

Managing Company Ethics and Social Responsibility

An expert on the topic of ethics said, "Management is responsible for creating and sustaining conditions in which people are likely to behave themselves."[58] Exhibit 5.6 illustrates ways in which managers create and support an ethical organization. One of the most important steps managers can take is to practice ethical leadership. *Ethical leadership* means that managers are honest and trustworthy, fair in their dealings with employees and customers, and behave ethically in both their personal and professional lives. In response to recent ethical violations and critics of management education saying MBA stands for "Me Before Anyone,"[59] some business schools and students are taking a fresh look at how future managers are trained.

EXHIBIT 5.6 Building an Ethical Organization



SOURCE: Adapted from Linda Klebe Treviño, Laura Pincus Hartman, and Michael Brown, "Moral Person and Moral Manager," *California Management Review* 42, no. 4 (Summer 2000): 128–142.

Innovative Way

Harvard Business School, Columbia Business School, Yale School of Management

Some members of a recent graduating class of Harvard Business School did something unusual. They signed a voluntary student-led pledge saying that the goal of a business manager is to "serve the greater good" and promising that they will act responsibly and ethically and refrain from advancing their "own narrow ambitions" at the expense of others.

At Harvard and other business schools, there has been an explosion of interest in ethics classes and activities that focus on personal and corporate responsibility. Many students, as well as educators, are recognizing a need to give future managers a deeper understanding of how to practice ethical leadership rather than just how to make money. At Columbia Business School, which requires an ethics course, students formed a popular Leadership and Ethics Board that sponsors lectures and other activities. Yale School of Management developed sessions in its core curriculum related to the recent ethical crisis in the mortgage and finance industries and worked with the Aspen Institute to create a curriculum aimed at teaching business students how to act on their values at work. About 55 business schools are using all or part of the curriculum in pilot programs. "There is a feeling that we want our lives to mean something more and to run organizations for the greater good," said Max Anderson, one of the organizers of Harvard's pledge. "No one wants to have their future criticized as a place filled with unethical behaviors."[60]

Changing how future managers are trained could be one key to solving the ethics deficit pervading organizations. Managers and first-line supervisors are important role models for ethical behavior, and they strongly influence the ethical climate in the organization by adhering to high ethical standards in their own behavior and decisions. Moreover, managers are proactive in influencing employees to embody and reflect ethical values.[61] This chapter's Shoptalk describes an approach that some leading companies are taking to strengthen managers' ethical and socially responsible underpinning.

Managers can also implement organizational mechanisms to help employees and the company stay on an ethical footing. Some of the primary ones are codes of ethics, ethical structures, and measures to protect whistle-blowers.

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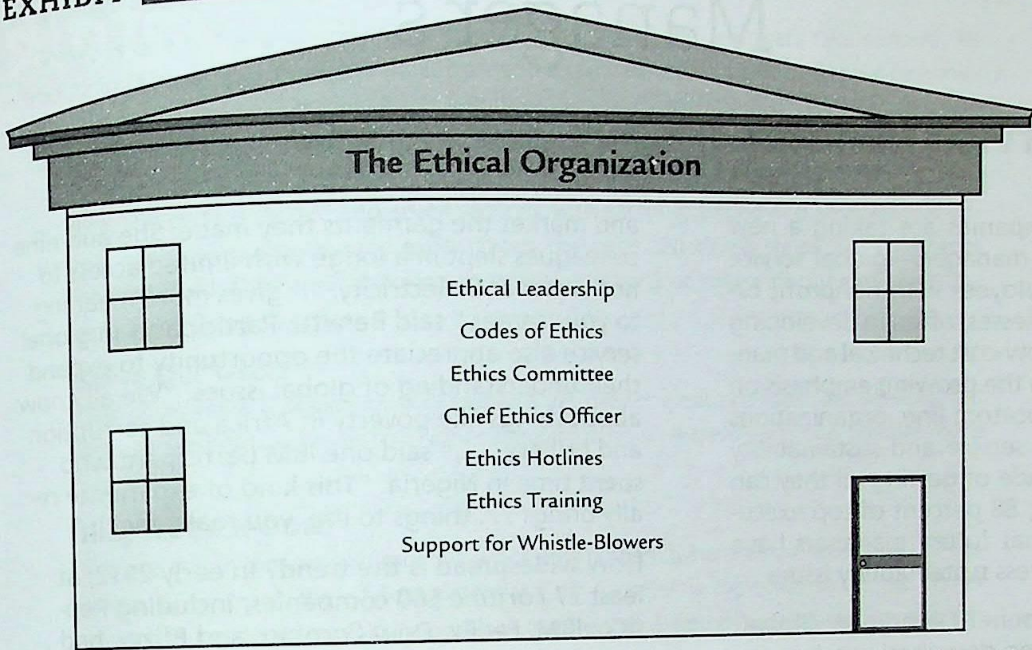

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Managers can also implement organizational mechanisms to help employees and the company stay on an ethical footing. Some of the primary ones are codes of ethics, ethical structures, and measures to protect whistle-blowers.

Manager's Shoptalk

Cultivating a Service Mindset

Some of today's best companies are taking a new approach to developing managers—global service programs that place employees with nonprofit organizations or small businesses, often in developing countries, to provide free or low-cost technical and managerial assistance. In line with the growing emphasis on sustainability and the triple bottom line, organizations want managers who have a service and sustainability mindset rather than an attitude of getting all they can for themselves. In one survey, 88 percent of top executives said it was important that future managers have the mindset and skills to address sustainability issues.

- **Global service programs benefit everyone.** Global service programs have been described as a "win-win-win." It might seem obvious that the nonprofit organizations served by these programs benefit, but the companies investing in them and the employees participating in them gain just as much. IBM credits its program with generating about $5 billion in new business. Companies gain greater knowledge of emerging markets, develop social capital and goodwill, and get more well-rounded managers with the service and sustainability mindset needed in today's world. Participants benefit in numerous ways, including increased self-awareness, new skills, and greater cross-cultural understanding.
- **Many managers view these opportunities as plum assignments.** Laura Benetti of Dow Corning spent four weeks working nine-hour-days with rural women in India, helping them learn how to price and market the garments they made. She and nine colleagues slept in a lodge with limited access to hot water and electricity. "It gives more meaning to your career," said Benetti. Participants in global service also appreciate the opportunity to expand their understanding of global issues. "We all *know* about things like poverty in Africa and corruption and bribery . . .," said one IBM participant who spent time in Nigeria. "This kind of experience really brings . . . things to life, you really feel it."
- **How widespread is the trend?** In early 2012, at least 27 *Fortune* 500 companies, including PepsiCo, IBM, FedEx, Dow Corning, and Pfizer, had some type of global service program, up from only 6 in 2006. Since 2008, IBM has sent more than 1,400 employees to work with projects such as reforming Kenya's postal system or developing ecotourism in Tanzania. Pfizer's program lends employees to nongovernmental organizations (NGOs) to address health care needs in Asia and Africa. The Accenture Development Partnership has been involved in more than 200 projects in 55 countries, where Accenture's professionals work at 50 percent pay for up to six months with organizations such as UNICEF and Freedom from Hunger.

Sources: Based on Philip Mirvis, Kevin Thompson, and John Gohring, "Toward Next-Generation Leadership: Global Service," *Leader to Leader* (Spring 2012): 20–26; Matthew Gitsham, "Experiential Learning for Leadership and Sustainability at IBM and HSBC," *Journal of Management Development* 31, no. 3 (2012): 298–307; and Anne Tergesen, "Doing Good to Do Well," *The Wall Street Journal*, January 9, 2012, B7.

CODE OF ETHICS

A **code of ethics** is a formal statement of the company's values concerning ethics and social issues; it communicates to employees what the company stands for. Codes of ethics tend to exist in two types: principle-based statements and policy-based statements. *Principle-based statements* are designed to affect corporate culture; they define fundamental values and contain general language about company responsibilities, quality of products, and treatment of employees. *Policy-based statements* generally outline the procedures to be used in specific ethical situations. These situations include marketing practices, conflicts of interest, observance of laws, proprietary information, political gifts, and equal opportunities.

General statements of principle are often called *corporate credos*. One good example is Johnson & Johnson's "The Credo." Available in 36 languages, The Credo has guided Johnson & Johnson's managers for more than 60 years in making decisions that honor the company's responsibilities to employees, customers, the community, and stockholders. Another example is Google's *Code of Conduct*. Portions of the Google code are shown in the following example.

Innovative Way

Google

Google is one of the best-known companies in the world, and managers take seriously its reputation for both technological superiority and a commitment to ethics and social responsibility. Google's Code of Conduct starts with these words: "'Don't be evil.' Googlers generally apply those words to how we serve our users. But 'Don't be evil' is much more than that."

Google uses a well-designed Code of Conduct to put the motto "Don't be evil" into practice. The code is divided into seven sections, with each subdivided into sections that describe specific values, policies, and expectations. The code also clearly states that employees will be protected if they call attention to ethical violations or misconduct. Here are some excerpts from Google's code:

Serve Our Users
Our users value Google not only because we deliver great products and services, but because we hold ourselves to a higher standard in how we treat users and operate more generally.

Respect Each Other
We are committed to a supportive work environment, where employees have the opportunity to reach their fullest potential. Each Googler is expected to do his or her utmost to create a respectful workplace culture that is free of harassment, intimidation, bias and unlawful discrimination of any kind.

Preserve Confidentiality
We get a lot of press attention around our innovations and our culture, and that's usually fine. However, company information that leaks prematurely into the press or to competitors can hurt our product launches, eliminate our competitive advantage and prove costly in other ways.

Ensure Financial Integrity and Responsibility
Financial integrity and fiscal responsibility are core aspects of corporate professionalism. . . . The money we spend on behalf of Google is not ours; it's the company's and, ultimately, our shareholders'.

Obey the Law
Google takes its responsibilities to comply with laws and regulations very seriously and each of us is expected to comply with applicable legal requirements and prohibitions.

Conclusion
Google aspires to be a different kind of company. It's impossible to spell out every possible ethical scenario we might face. Instead, we rely on one another's good judgment to uphold a high standard of integrity for ourselves and our company.

And remember . . . don't be evil, and if you see something that you think isn't right—speak up![62]

ENVIRONMENT 2

Having a strong code of conduct or code of ethics doesn't guarantee that companies won't get into ethical trouble or be challenged by stakeholders on ethical issues. Codes of ethics in and of themselves do little to influence and ensure ethical behavior among employees and managers.[63] However, they are one key element of the organization's ethical framework. Codes of ethics state the values or behaviors expected and those that will not be tolerated. When top management supports and enforces these codes, including rewards for compliance and discipline for violation, ethics codes can boost a company's ethical climate.[64]

ETHICAL STRUCTURES

Ethical structures represent the various systems, positions, and programs that a company can undertake to encourage and support ethical behavior.[65] An **ethics committee** is a group of executives (and sometimes lower-level employees as well) appointed to oversee company ethics. The committee provides rulings on questionable ethical issues and assumes responsibility for disciplining wrongdoers. Motorola's Ethics Compliance Committee, for instance, is charged with interpreting, clarifying, and communicating the company's code of ethics and with adjudicating suspected code violations.

Many companies set up ethics offices with full-time staff to ensure that ethical standards are an integral part of company operations. These offices are headed by a **chief ethics officer**, sometimes called a *chief ethics and compliance officer*, a company executive who oversees all aspects of ethics and legal compliance, including establishing and broadly communicating standards, ethics training, dealing with exceptions or problems, and advising senior managers in the ethical and compliance aspects of decisions.[66] The title *chief ethics officer* was almost unheard of a decade ago, but highly publicized ethical and legal problems in recent years have sparked a growing demand for these ethics specialists. The Ethics and Compliance Officer Association, a trade group, reports that membership soared 70 percent, to more than 1,260 companies, in the five years following the collapse of Enron due to financial wrongdoing.[67] Most ethics offices also work as counseling centers to help employees resolve difficult ethical issues. A toll-free confidential *ethics hotline* allows employees to report questionable behavior, as well as seek guidance concerning ethical dilemmas.

Take a Moment

Complete the Experiential Exercise on page 159 that pertains to ethical work environments.

Whistle-Blowing

Employee disclosure of illegal, unethical, or illegitimate practices on the employer's part is called **whistle-blowing**.[68] No organization can rely exclusively on codes of conduct and ethical structures to prevent all unethical behavior. Holding organizations accountable depends to some degree on individuals who are willing to speak up if they detect illegal, dangerous, or unethical activities. Whistle-blowers often report wrongdoing to outsiders, such as regulatory agencies, senators, or newspaper reporters. Some firms have instituted innovative programs and confidential hotlines to encourage and support internal whistle-blowing. For this practice to be an effective ethical safeguard, however, companies must view whistle-blowing as a benefit to the company and make dedicated efforts to encourage and protect whistle-blowers.[69]

For instance, in 2001, Mike McQueary, at the time a graduate assistant in the football program at Pennsylvania State University, reported to head football coach Joe Paterno, athletic director Tim Curley, and others that he saw defensive coordinator Jerry Sandusky sexually abusing a young boy in the locker room. But allegedly, no one took the next step to stop the immoral (and illegal) behavior, and Sandusky went on to molest more boys before one of his victims brought the abuse to light. In the summer of 2012, more than ten years after McQueary's initial report, Sandusky was convicted on 45 counts of child sexual abuse. The courts and the public were astonished to learn how many people knew about Sandusky's behavior and apparently did nothing beyond talking with Sandusky and urging him to get professional help. The fact is that most managers have a natural inclination to protect their colleagues and the organization.[70]

HOT TOPIC

For people throughout an organization to be willing to "blow the whistle" on unethical or illegal behavior, managers have to *revere* whistle-blowing and make heroes of those who come forward. At Penn State, the opposite seemed to happen. In fact, Vicky Triponey, vice president of student affairs at Penn State from 2003 to 2007, says she was fired after trying to punish football players for acts of wrongdoing ranging from brutal fights to sexual assault. According to Triponey, Penn State president Graham Spanier told her she wasn't fitting in with "the Penn State way." Triponey says there was a "blind sense of loyalty—not just at the top, but at all levels. I think people, in order to keep their jobs, have had to turn a blind eye."[71] Indeed, managers want employee loyalty in their organization, and it can be difficult to set aside when unethical activities are discovered.

Penn State managers aren't alone in trying to protect the organization, even at the risk of allowing unethical behavior to continue. The U.S. Office of Special Counsel recently found three Air Force officials guilty of retaliating against civilian employees who reported the mishandling of the remains of deceased soldiers at Dover Air Force Base, for example. A former executive at Countrywide Financial Corporation says he was bullied and eventually fired after he questioned the company's use of so-called "Ninja loans" (no income, no job, no assets) at the height of the subprime mortgage craze. And Matthew Lee, a former senior vice president in Lehman Brothers' accounting division, lost his job just weeks after he raised concerns about how the firm was masking risks by temporarily "parking" $50 billion in risky loan assets off its balance sheet.[72]

Unfortunately, many managers still look on whistle-blowers as disgruntled employees who aren't good team players. Yet to maintain high ethical standards, organizations need people who are willing to point out wrongdoing. Managers can be trained to view whistle-blowing as a benefit rather than a threat, and systems can be set up to protect employees who report illegal or unethical activities.

The Business Case for Ethics and Social Responsibility

Most managers now realize that paying attention to ethics and social responsibility is as important a business issue as paying attention to costs, profits, and growth. For one thing, in today's information age, bad behavior is increasingly hard to hide, and "outbehaving the competition" can provide a real competitive advantage.[73]

Naturally, the relationship of a corporation's ethics and social responsibility to its financial performance concerns both managers and management scholars and has generated a lively debate.[74] One concern of managers is whether good citizenship will hurt performance—after all, ethics programs and social responsibility cost money. A commitment to sustainability means that things often have to be done in a more costly way. Hundreds of studies have been undertaken to determine whether heightened ethical and social responsiveness increases or decreases a company's financial performance. Studies have provided varying results, but they have generally found a positive relationship between ethical and socially responsible behavior and firm financial performance.[75] For example, a recent study of the top 100 sustainable global companies found that they had significantly higher sales growth, return on assets, profits, and cash flow from operations in at least some areas of business.[76] Another review of the financial performance of large U.S. corporations considered "best corporate citizens" found that they enjoy both superior reputations and superior financial performance.[77] Similarly, Governance Metrics International, an independent corporate governance ratings agency in New York, reports that the stocks of companies run on more selfless principles perform better than those run in a self-serving manner.[78] Although results from these studies are not proof, they do provide an indication that using resources for ethics and social responsibility does not hurt companies.[79]

▶▶▶ Concept Connection

Eaton Corporation

Gen-Yers throughout the world expect a serious **commitment to sustainability** from their employers. In fact, one study found that more than 95 percent of Gen-Y respondents wanted to work for an organization that goes beyond merely complying with existing environmental legislation. That's why Cleveland-based Eaton Corporation, a diversified power management company, prominently features its commitment to sustainability on its career Web page and at career fairs, such as the one pictured here. "It's actually helped us in acquiring top talent at a lot of top universities," says Joel Wolfsberger, Eaton vice president for environment, health, and safety.

Companies are also making an effort to measure the nonfinancial factors that create value. Researchers find, for example, that people prefer to work for sustainable companies or companies that demonstrate a high level of ethics and social responsibility; thus, these organizations can attract and retain high-quality employees.[80] Customers pay attention too. A study by Walker Research indicates that, price and quality being equal, two-thirds of customers say they would switch brands to do business with a company that is ethical and socially responsible.[81] Another series of experiments by Remi Trudel and June Cotte of the University of Western Ontario's Ivey School of Business found that consumers were willing to pay slightly more for products they were told had been made using high ethical standards.[82]

Enlightened managers realize that integrity and trust are essential elements in sustaining successful and profitable business relationships with an increasingly connected and well-informed web of employees, customers, suppliers, and partners. Although doing the right thing might not always be profitable in the short run, many managers believe that it can provide a competitive advantage by developing a level of trust that money can't buy.

Remember This

- Managers are role models. One of the most important ways that managers create ethical and socially responsible organizations is by practicing ethical leadership.
- Some students at Harvard Business School sign a pledge promising to act responsibly and ethically as managers.
- A **code of ethics** is a formal statement of the organization's values regarding ethics and social issues.
- An **ethics committee** is a group of executives (and sometimes lower-level employees as well) charged with overseeing company ethics by ruling on questionable issues and disciplining violators.
- Some organizations have ethics offices headed by a **chief ethics officer**, a manager who oversees all aspects of ethics and legal compliance.
- Managers who want ethical organizations support **whistle-blowing**, the disclosure by employees of unethical, illegitimate, or illegal practices by the organization.
- Companies that are ethical and socially responsible perform as well as—often even better than—those that are not socially responsible.
- One study found that sustainable companies have significantly higher sales growth, return on assets, and profits than companies that are not run on a philosophy of sustainability.

ch5: Discussion Questions

1. Is it reasonable to expect that managers can measure their social and environmental performance on the same level as they measure financial performance with a triple bottom line? Discuss.
2. What various stakeholder groups did oil giant BP have to respond to concerning the massive 2010 oil spill in the Gulf of Mexico? From what you know about the BP oil spill, how would you evaluate BP executives' behavior in terms of corporate social responsibility?
3. Imagine yourself in a situation of being encouraged by colleagues to inflate your expense account. What factors do you think would influence your decision? Explain.
4. Is it socially responsible for organizations to undertake political activity or join with others in a trade association to influence the government? Discuss.
5. Managers at some banks and mortgage companies have argued that providing subprime mortgages was based on their desire to give poor people a chance to participate in the American dream of home ownership. What is your opinion of this explanation in terms of ethics and social responsibility?
6. A noted business executive said, "A company's first obligation is to be profitable. Unprofitable enterprises can't afford to be socially responsible." Discuss why you agree or disagree with this statement.
7. Do you believe that it is ethical for organizational managers to try to get access to and scrutinize the Facebook pages of employees or job applicants? Discuss.
8. Which do you think would be more effective for shaping long-term ethical behavior in an organization: a written code of ethics combined with ethics training,

or strong ethical leadership? Which would have more impact on you? Why?

9. The technique of stakeholder mapping lets managers classify which stakeholders they will consider more important and will invest more time to satisfy. Is it appropriate for management to define some stakeholders as more important than others? Should all stakeholders be considered equal?

10. According to a survey, many people think cheating is more common today than it was a decade ago. Do you think cheating is really more common, or does it just seem so? Why?

ch5: Apply Your Skills: Experiential Exercise

Ethical Work Climates[83]

Think of an organization for which you were employed. Answer the following questions twice: The first time, circle the number that best describes the way things actually were. The second time, answer the questions based on your beliefs about the ideal level that would meet the needs of both individuals and the organization.

Disagree 1 2 3 4 5 Agree

1. What was best for everyone in the company was the major consideration there.
   1 2 3 4 5
2. Our major concern was always what was best for the other person.
   1 2 3 4 5
3. People were expected to comply with the law and professional standards over and above other considerations.
   1 2 3 4 5
4. In the company, the first consideration was whether a decision violated any law.
   1 2 3 4 5
5. It was very important to follow the company's rules and procedures there.
   1 2 3 4 5
6. People in the company strictly obeyed the company policies.
   1 2 3 4 5
7. In the company, people were mostly out for themselves.
   1 2 3 4 5
8. People were expected to do anything to further the company's interests, regardless of the consequences.
   1 2 3 4 5
9. In the company, people were guided by their own personal ethics.
   1 2 3 4 5
10. Each person in the company decided for himself or herself what was right and wrong.
   1 2 3 4 5

Scoring and Interpretation

Subtract each of your scores for questions 7 and 8 from the number 6. Then, add up your score for all ten questions: Actual = ______. Ideal = ______. These questions measure the dimensions of an organization's ethical climate. Questions 1 and 2 measure caring for people; questions 3 and 4 measure lawfulness; questions 5 and 6 measure adherence to rules; questions 7 and 8 measure emphasis on financial and company performance; and questions 9 and 10 measure individual independence. A total score above 40 indicates a highly positive ethical climate. A score from 30 to 40 indicates above-average ethical climate. A score from 20 to 30 indicates a below-average ethical climate, and a score below 20 indicates a poor ethical climate. How far from your ideal score was the actual score for your organization? What does that difference mean to you?

Go back over the questions and think about changes that you could have made to improve the ethical climate in the organization. Discuss with other students what you could do as a manager to improve ethics in future companies for which you work.

ch5: Apply Your Skills: Small Group Breakout

Current Events of an Unethical Type[84]

Step 1. Prior to meeting as a group, each person find two newspaper or magazine articles from the past several months relating to someone violating business ethics or potentially breaking the law regarding business practices.

Step 2. Summarize the key points of the articles you found.

Step 3. Meet as a group. Each person in turn shares key points from articles with group members.

Step 4. Identify similar themes across the unethical incidents reported in the articles. What was the source or underlying cause of the unethical behavior? What was the hoped-for outcome? Was an individual or a group involved? Can you identify similar conditions of any kind across incidents? Did the accused seem repentant or defensive? Write the common themes in a list on a sheet of paper or whiteboard.

Step 5. What could you do as a manager to prevent such unethical behavior in your organization? What could you do to fix this kind of problem after it occurred in your organization?

Step 6. Report your findings to the class if asked to do so by your instructor.

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