

CHAPTER

4

Managerial Ethics and Corporate Social Responsibility

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LEARNING OBJECTIVES

After studying this chapter, you should be able to do the following:

- 1 Define ethics and explain how ethical behavior relates to behavior governed by law and free choice.
- 2 Explain the utilitarian, individualism, moral rights, and justice approaches for evaluating ethical behavior.
- 3 Describe how individual and organizational factors shape ethical decision making.
- 4 Define corporate social responsibility and how to evaluate it along economic, legal, ethical, and discretionary criteria.
- 5 Describe four organizational approaches to environmental responsibility, and explain the philosophy of sustainability.
- 6 Discuss how ethical organizations are created through ethical leadership and organizational structures and systems.
- 7 Identify important stakeholders for an organization and discuss how managers balance the interests of various stakeholders.

Manager's Challenge

Timberland is known for great shirts and solid climbing boots. The company has had a good financial history with decent revenues and profits. But CEO Jeffrey Swartz wanted something more. In the early 1990s, he began transforming Timberland into a company known as much for philanthropy as it is for its boots. It began when the community projects-oriented nonprofit City Year asked for boots for its workers. Swartz convinced other Timberland executives to answer the call, over time providing free boots and uniforms for about 10,000 people. Visiting some of the community projects, Swartz was deeply moved by what volunteers were accomplishing. "I saw what real power was that day," Swartz recalls. "I didn't realize how hungry I was for that kind of purpose." Timberland began shutting down operations one day each year so the company's thousands of employees could get paid to take part in various company-sponsored philanthropic projects, such as building homeless shelters or cleaning up playgrounds. The company started giving employees 16 hours of paid leave annually to volunteer at charities of their choosing. But the emphasis on social responsibility does not come cheap.

The all-day event alone costs about \$2 million a year in lost sales, project expenses, and wages for employees. When Timberland's profits were soaring, that seemed fine, but then the company hit a rough patch. It reported its first operating loss since going public, laid off some employees, and shipped some work overseas to cut costs.

So, when one of the company's bankers implied that the focus on philanthropy was hurting the company and its stakeholders, Swartz found himself in a quandary. One of Timberland's bankers bluntly told Swartz that the company needed to "cut this civic stuff out and get back to business." Swartz began wondering if the banker was right. Maybe managers were failing the organization and its stakeholders by plowing too many resources into philanthropic activities.¹

If you were in this position, would you cut out the charity work and focus everything on returning Timberland to profitability? If charity begins at home, is Timberland being ethical by spending money for philanthropic activities at the same time it is shipping jobs overseas and laying off workers?

The situation at Timberland illustrates how difficult ethical issues can be and symbolizes the growing importance of discussing ethics and social responsibility. Managers often face situations where it is difficult to determine what is right. Thus, ethics has always been a concern for managers. However, in recent years, widespread moral lapses and corporate financial scandals have brought the topic to the forefront. Corporations are rushing to adopt codes of ethics, strengthen ethical and legal safeguards, and develop socially responsible policies. Every decade sees its share of corporate, political, and social villains, but the pervasiveness of ethical lapses in the early 2000s was astounding. It began with Enron Corp., America's seventh-largest corporation in mid-2000. The mighty company was destroyed by a combination of deceit, arrogance, shady financial dealings, and inappropriate accounting practices that inflated earnings and hid debt. Soon, the names of other revered companies became synonymous with greed, dishonesty, and financial chicanery: Arthur Andersen, Adelphia, WorldCom, Tyco, HealthSouth. A poll taken in fall 2002 found that 79 percent of respondents believed questionable business practices were widespread. Fewer than one third said they thought most CEOs were honest.² Moreover, more than 20 percent of U.S. employees surveyed reported having first-hand knowledge of managers making false or misleading promises to customers, discriminating in hiring or promotions, and violating employees' rights.³

However, the positive news to report is that actor Paul Newman and his friend A. E. Hotchner started a company, Newman's Own, that makes salad dressings, spaghetti sauce, and other foods and gives all the profits to charity. Boston's Bain & Company set up the nonprofit Bridgespan Group that gives charitable organizations world-class consulting advice at steep discounts. And Computer Associates each year pairs 75 employee volunteers with 75 employees from major customers to build playgrounds in needy areas.⁴ A number of companies have begun tying managers' pay to ethical factors such as how well they treat employees or how effectively they live up to the stated corporate values.

This chapter expands on the ideas about environment, corporate culture, and the international environment discussed in Chapters 2 and 3. We will focus on the topic of ethical values, which builds on the idea of corporate culture. Then, we will examine corporate relationships to the external environment as reflected in social responsibility. Ethics and social responsibility are hot topics in corporate America. This chapter discusses fundamental approaches that help managers think through ethical issues. Understanding ethical approaches helps managers build a solid foundation on which to base future decision making.

What Is Managerial Ethics?

ethics

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

Ethics 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.⁵ Ethics deals with internal values that are a part of corporate culture and shapes decisions concerning social responsibility with respect to the external environment. An ethical issue is present in a situation when the actions of a person or organization may harm or benefit others.⁶

Ethics can be more clearly understood when compared with behaviors governed by laws and by free choice. Exhibit 4.1 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 have ruled that people and corporations must behave in a certain way, such as obtaining licenses for cars or paying corporate taxes. The courts alleged that Enron Corp. executives broke the

**EXHIBIT 4.1**

Three Domains of Human Action

law, for example, by manipulating financial results, such as using off-balance sheet partnerships to create income and hide debt improperly.⁷ 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. A manager's choice of where to eat lunch or a music company's choice of the number of CDs to release are examples of free choice.

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. Executives at Enron Corp., for example, did not break any specific laws by encouraging employees to buy more shares of stock even when they believed the company was in financial trouble and the price of the shares was likely to decline. However, this behavior was a clear violation of the executives' ethical responsibilities to employees.⁸ These managers were acting based on their own interests rather than their duties to employees and other stakeholders. In the domain of free choice, obedience is strictly to oneself. In the domain of codified law, obedience is to laws prescribed by the legal system. In the domain of ethical behavior, obedience is to unenforceable norms and standards about which the individual or company is aware. An ethically acceptable decision is legally and morally acceptable to the larger community.

Many companies and individuals get into trouble with the simplified view that choices are governed by law or free choice. It leads people to assume mistakenly that if it is not illegal, it must be ethical as if there were no third domain.⁹ A better option is to recognize the domain of ethics and accept moral values as a powerful force for good that can regulate behaviors inside and outside corporations. As principles of ethics and social responsibility are more widely recognized, companies can use codes of ethics and their corporate cultures to govern behavior, thereby eliminating the need for additional laws and avoiding the problems of unfettered choice. Sometimes deregulation of an industry has removed laws and increased unethical behaviors where companies did not have socially responsible cultures, as in the case of radio promoters, described below:

Nashville's RCA Label Group has terminated the use of independent radio promoters who serve as liaisons between radio stations and its country music labels. These independent promoters are third parties hired by the record companies to work with radio stations, hoping to persuade them to play the record company's songs. The practice of hiring promoters was a reaction to the payola scandals 50 years ago, when disk jockeys took money to play certain songs. Outlawed by U.S. Congress in 1960, payment for airplay was forbidden unless financial transactions were aired publicly.

In recent years, though, a new and quasi-legal kind of payola has emerged, partly as a result of the 1996 deregulation of radio that was supposed to let the capitalist system determine rules. The problem is, deregulation has worked poorly in the area of payola. To skirt the law, payment is not made directly to disk jockeys for particular songs. Instead,

Take ACTION

Try to do the right thing, the ethical thing, rather than only following "the law."

Radio Promoters

promoters—or middlemen—pay radio owners large fees as high as \$1 million to have exclusive first access to that station's playlist for a period of time. Then record companies and artists pay the promoters to make sure their music gets on the radio.

Critics charge this system has led to a homogenization of the air waves and artists complain they are hurt if they do not go with the program. One promoter allegedly retaliated against Britney Spears and other artists who refused to use their concert promotion services.

Another result of deregulation has been the consolidation of the radio industry. Under the regulated system, there was a limit to the number of stations anyone could own. Now, that limit is gone. Whereas there were 5,133 owners of radio stations in 1966, in 2002 there were primarily four radio station groups: Clear Channel, Chancellor, Infinity, and Capstart, which control access to 63 percent of 41 million listeners. This consolidation has increased the power of the promoters and encouraged the new payola system.

Profit pressure from radio stations and record companies has "pushed the economics and ethics of radio promotion beyond the point where labels can police themselves," says music industry executive Tim Dubois, of Universal South label. "We need a new set of rules," he says. "We have to know where the line is drawn, and it has to be brighter than it is now." RCA is doing its best to define those lines by being the first major label to distance itself from independent promoters, a group being investigated by New York Attorney General Eliot Spitzer, who is scrutinizing how music gets promoted and how airplay is determined.¹⁰

Because ethical standards are not codified, disagreements and dilemmas about proper behavior often occur. Ethics is always about making decisions, and some issues are difficult to resolve. An **ethical dilemma** arises in a situation concerning right or wrong when values are in conflict.¹¹ Right and wrong cannot be clearly identified.

The individual who must make an ethical choice in an organization is the moral agent.¹² Consider the dilemmas facing a moral agent in the following situations:

- A top employee at your small company tells you he needs some time off because he has AIDS. You know the employee needs the job as well as the health insurance benefits. Providing health insurance has already stretched the company's budget, and this will send premiums through the roof. You know the federal courts have upheld the right of an employer to modify health plans by putting a cap on AIDS benefits. Should you investigate whether this is a legal possibility for your company?
- As a sales manager for a major pharmaceuticals company, you have been asked to promote a new drug that costs \$2,500 per dose. You have read the reports saying the drug is only 1 percent more effective than an alternative drug that costs less than one-fourth as much. Can you in good conscience aggressively promote the \$2,500-per-dose drug? If you do not, could lives be lost that might have been saved with that 1 percent increase in effectiveness?
- Your company is hoping to build a new overseas manufacturing plant. You could save about \$5 million by not installing standard pollution control equipment that is required in the United States. The plant will employ many local workers in a poor country where jobs are scarce. Your research shows that pollutants from the factory could potentially damage the local fishing industry. Yet building the factory with the pollution control equipment will likely make the plant too expensive to build.¹³
- You are the accounting manager of a division that is \$15,000 below profit targets. Approximately \$20,000 of office supplies were delivered on December 21. The accounting rule is to pay expenses when incurred. The division general manager asks you not to record the invoice until February.

ethical dilemma

A situation that arises when all alternative choices or behaviors have been deemed undesirable because of potentially negative consequences, making it difficult to distinguish right from wrong.

- You have been collaborating with a fellow manager on an important project. One afternoon, you walk into his office a bit earlier than scheduled and see sexually explicit images on his computer monitor. The company has a zero-tolerance sexual harassment policy, as well as strict guidelines regarding personal use of the Internet. However, your colleague was in his own office and not bothering anyone else.¹⁴

Managers must deal with these dilemmas that fall squarely in the domain of ethics. Now turn to approaches to ethical decision making that provide criteria for understanding and resolving these difficult issues.

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 install mandatory alcohol and drug testing for employees, which might benefit the organization as a whole but reduce the individual freedom of employees? Should products that fail to meet tough FDA standards be exported to other countries where government standards are lower, benefiting the company but being potentially harmful to 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? What about baseball, where some players evidently benefit from steroid use? Though the substance is banned, there has yet to be an all-out effort to stop the practice, indicating some moral ambivalence about the practice.

After New York Yankee Jason Giambi was accused of steroids use and almost confessed, the practice is still believed to be common yet undiscussed. "At least half the guys are using steroids," said National League Most Valued Player Ken Caminiti, who was the first high-profile player to admit to a long-whispered practice. That estimate had been earlier affirmed by Arizona Diamondbacks pitcher Curt Schilling, who added, "Is that a problem? It depends on what you consider a problem. It certainly has tainted records; there's no doubt about that." Congressional hearings on the matter have caused some stars to fall. The former St. Louis Cardinals' Mark McGwire was so evasive on whether he used steroids that a lot of people are disappointed in the man who got an unprecedented 70-homer season. A Missouri congressman even wants McGwire's name taken off a highway.

One person has confessed: Jose Canseco said he used steroids and named others. He said baseball managers and owners knew about the common steroid use. What gets forgotten is how steroids only benefit the players who cheat as opposed to smaller ball-parks or a lower mound, which benefit all players equally.

Unlike basketball, football and hockey, major league baseball does no drug testing. But with so many record-breaking players, many assumed steroids were being used freely. It increases the incidence of heart and liver damage and strokes. NFL star Lyle Alzado went public in 1992 about his brain cancer being caused by long-time steroid use.

So why take the risks? Steroid use increases muscle mass and can lead to better performance and hence high contract dollars. Replying to concerns, Schilling said, "If you can get an advantage somewhere, even if it involves crossing an ethical line, people will do it. Home runs are money."

Caminiti said that the practice was so prevalent, players who did not do it put themselves at a disadvantage. One of the biggest hurdles in the way of drug testing has been the baseball players themselves, through their union. The tide may be turning, though. Diamondback first baseman Mark Grace says that players are finally getting fed up with inflated statistics and record-breaking. "I personally would love to see it banned."¹⁵

Steroid Storm

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. Four of these that are relevant to managers are the utilitarian approach, individualism approach, moral rights approach, and justice approach.¹⁶

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 satisfaction for the greatest number of people. Because actual computations can be complex, simplifying them is considered appropriate. For example, an economic frame of reference could be used by calculating dollar costs and dollar benefits. A decision could be made that considers only the people who are directly affected by the decision, not those who are indirectly affected. The utilitarian ethic is cited as the basis for the recent trend among companies to police employee personal habits such as alcohol and tobacco consumption on the job, and in some cases after hours because such behavior affects the entire workplace. Similarly, many companies argue that monitoring how employees spend their time on the Internet is necessary to maintain the company's ethical climate and workplace productivity. If employees are viewing pornographic sites, visiting racist chat rooms, or spending hours shopping or day trading online, the entire organization will suffer.¹⁷

The utilitarian ethic was the basis for the state of Oregon's decision to extend Medicaid to 400,000 previously ineligible recipients by refusing to pay for high-cost, high-risk procedures such as liver transplants and bone marrow transplants. Though a few people needing these procedures have died because the state would not pay, many people have benefitted from medical services they would otherwise have had to go without.¹⁸ Critics claim that the Oregon decision does not fully take into account the concept of justice toward the unfortunate victims of life-threatening diseases.¹⁹ The justice approach will be discussed later in this section.

Individualism Approach

The **individualism approach** contends that acts are moral when they promote the individual's best long-term interests. Individual self-direction is paramount, and external forces that restrict self-direction should be severely limited.²⁰ Individuals calculate the best long-term advantage to themselves as a measure of a decision's goodness. The action that is intended to produce a greater ratio of good to bad for the individual compared with other alternatives is the right one to perform. 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 causes business associates to lie and cheat in return. Thus, individualism ultimately leads to behavior toward others that fits standards of behavior people want toward themselves.²¹ One value of understanding this approach is to recognize short-term variations if they are proposed. People might argue for short-term self-interest based on individualism, but that misses the point. Because individualism is easily misinterpreted to support immediate self-gain, it is unpopular in today's highly organized and group-oriented society. Dozens of disgraced top executives from WorldCom, Enron Corp., Tyco, and other companies demonstrate the flaws of the individualism approach. This approach is closest to the domain of free choice described in Exhibit 4.1.

utilitarian approach

The ethical concept that moral behaviors produce the greatest good for the greatest number.

Take **ACTION**

Make decisions that benefit others, not just yourself.

individualism approach

The ethical concept that acts are moral when they promote the individual's best long-term interests, which ultimately leads to the greater good.

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

Six moral rights should be considered during decision making:

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

To make ethical decisions, managers need to avoid interfering with the fundamental rights of others. For example, a decision to eavesdrop on employees violates the right to privacy. Sexual harassment is unethical because it violates the right to freedom of conscience. 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, procedural justice, and compensatory justice. **Distributive justice** requires that different treatment of people not be based on arbitrary characteristics. Individuals who are similar in respects relevant to a decision should be treated similarly. Thus, men and women should not receive different salaries if they are performing the same job. However, people who differ in a substantive way, such as job skills or responsibilities, can be treated differently in proportion to the differences in skills or responsibility among them. This difference should have a clear relationship to organizational goals and tasks.

Procedural justice requires that rules be administered fairly. Rules should be clearly stated and be consistently and impartially enforced. **Compensatory justice** argues that individuals should be compensated for the cost of their injuries by the responsible party. Moreover, individuals should not be held responsible for matters over which they have no control.

The justice approach is closest to the thinking underlying the domain of codified law in Exhibit 4.1 because it assumes that justice is applied through rules and regulations. This theory does not require complex calculations such as those demanded by a utilitarian approach, and it does not justify self-interest as the individualism approach does. Managers are expected to define attributes on which different treatment of employees is acceptable. Questions such as how minority workers should be compensated for past discrimination are difficult. However, this approach does justify as ethical behavior efforts to correct past wrongs, play fair under the rules, and insist on job-relevant differences as the basis for different levels of pay or promotion opportunities. Most of the laws guiding human resource management (Chapter 9) are based on the justice approach.

moral rights approach

The ethical concept that moral decisions are those that best maintain the rights of those people affected by them.

Take ACTION

Take time to make decisions so you treat others fairly, with justice.

justice approach

The ethical concept that moral decisions must be based on standards of equity, fairness, and impartiality.

distributive justice

The concept that different treatment of people should not be based on arbitrary characteristics. In the case of substantive differences, people should be treated differently in proportion to the differences among them.

procedural justice

The concept that rules should be clearly stated and consistently and impartially enforced.

compensatory justice

The concept that individuals should be compensated for the cost of their injuries by the responsible party and that individuals should not be held responsible for matters over which they have no control.

Understanding these various approaches is only a first step; managers still have to consider how to apply them. The approaches offer general principles that managers can recognize as useful in making ethical decisions. The Focus on Ethics box lists some further guidelines that can help managers make ethical decisions.

Factors Affecting Ethical Choices

When managers are accused of lying, cheating, or stealing, the blame is usually placed on the individual or on the company situation. Most people believe that individuals make ethical choices because of individual integrity, which is true, but it is not the whole story. Ethical or unethical business practices usually reflect the values, attitudes, beliefs, and behavior patterns of the organizational culture; thus, ethics is as much an organizational as a personal issue.²² Examine how the manager and the organization shape ethical decision making.²³

The Manager

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

One important personal trait is the stage of moral development.²⁴ A simplified version of one model of personal moral development is shown in Exhibit 4.2. At the pre-conventional level, individuals are concerned with external rewards and punishments

FOCUS ON ETHICS

Guidelines for Ethical Decision Making

If a *60 Minutes* crew were waiting on your doorstep one morning, would you feel comfortable justifying your actions to the camera? One young manager, when confronted with ethical dilemmas, gives them the *60 Minutes* test. Others say they use such criteria as whether they would be proud to tell their parents or grandparents about their decisions, or whether they could sleep well at night and face themselves in the mirror in the morning. Managers often rely on their own personal integrity in making ethical decisions. But knowing what to do is not always easy. As a future manager, you will almost surely face ethical dilemmas one day. The following guidelines will not tell you exactly what to do, but taken in the context of the text discussion, they will help you evaluate the situation more clearly by examining your own values and those of your organization. The answers to these questions will force you to think about the social and ethical consequences of your behavior.

1. Is the problem/dilemma what it appears to be? If you are not sure, find out.
2. Is the action you are considering legal? Ethical? If you are not sure, find out.
3. Do you understand the position of those who oppose the action you are considering? Is it reasonable?

4. Whom does the action benefit? Harm? How much? How long?
5. Would you be willing to allow everyone to do what you are considering doing?
6. Have you sought the opinion of others who are knowledgeable and objective regarding the subject?
7. Would your action be embarrassing to you if it were made known to your family, friends, coworkers, or superiors?
8. Even if you are sure the decision is reasonable and that you could defend it to others, does your gut instinct tell you it is the wrong thing to do?

There are no correct answers to these questions in an absolute sense. Yet, if you determine that an action is potentially harmful to someone or would be embarrassing to you, or if you do not know the ethical or legal consequences, these guidelines will clarify whether the action is socially responsible.

SOURCES: Anthony M. Pagano and Jo Ann Verdin, *The External Environment of Business* (New York: Wiley, 1988): Chapter 5; Joseph L. Badaracco, Jr. and Allen P. Webb, "Business Ethics: A View from the Trenches," *California Management Review* 37:2 (Winter 1995): 8–28; and Sherry Baker, "Ethical Judgment," *Executive Excellence* (March 1992): 7–8.



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CONCEPT CONNECTION

Julius Walls, Jr., chief executive of Greyston Bakery, demonstrates the **postconventional level of moral development**. Greyston makes gourmet brownies, cakes, and tarts. Walls hires employees off the street, first come, first served, because he thinks everyone deserves a chance at a job. He also helps workers with problems whether or not they're job related. Greyston serves the poor by feeding the rich. Much of its \$4 million in annual sales are generated by selling bits of brownies to Ben & Jerry's for its chocolate fudge brownie ice cream and frozen yogurt, and the company donates all profits to the needy.

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 for accomplishment of 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 and standards and may disobey rules or laws that violate these principles. Internal values become more important than the expectations of significant others. For example, when the *USS Indianapolis* sank after being torpedoed during World War II, one Navy

EXHIBIT 4.2

Three Levels of Personal Moral Development

	Level 3: Postconventional		
	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.		
	Level 2: Conventional		
	Lives up to expectations of others. Fulfills duties and obligations of social system. Upholds laws.		
	Level 1: Preconventional		
	Follows rules to avoid punishment. Acts in own interest. Obedience for its own sake.		
Leadership Style:	Autocratic/coercive	Guiding/encouraging, team oriented	Transforming, or servant leadership
Employee Behavior:	Task accomplishment	Work group collaboration	Empowered employees, full participation

SOURCES: 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), 31–53; and Jill W. Graham, "Leadership, Moral Development and Citizenship Behavior," *Business Ethics Quarterly* 5, no. 1 (January 1995), 43–54.

Take ACTION

Listen to your conscience and take moral actions; independently investigate where the truth lies and what is the right thing to do.

pilot disobeyed orders and risked his life to save men who were being picked off by sharks. The pilot was operating from the highest level of moral development in attempting the rescue despite a direct order from superiors. 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. A few have not advanced beyond level one. Only about 20 percent of American adults reach the third level 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 for them. What level of moral development do you think Shepard Fairey is at? He experiences cognitive dissonance between his street image and his contracts with huge corporations, as shown in the Focus on Leadership box.

One interesting study indicates that most researchers have failed to account for the different ways in which women view social reality and develop psychologically and have, thus, consistently classified women as being stuck at lower levels of development. Researcher Carol Gilligan has suggested that the moral domain be enlarged to include responsibility and care in relationships. Women may, in general, perceive moral complexities more astutely than men and make moral decisions based not on a set of absolute rights and wrongs but on principles of not causing harm to others.²⁵

FOCUS ON LEADERSHIP**Studio Number One**

Shepard Fairey likes to think of himself as a rebel, a maverick. The 34-year-old is one of his generation's most notorious and prolific street artists. He recently split with his long-time creative partner and started his own marketing design firm, Studio Number One (see <http://www.subliminalprojects.com>). He gets invited to speak at conferences and travels to Japan with his wife to visit a shop that sells clothing with his images. He works with huge business firms who hope Fairey can connect them to a much-desired demographic.

But Fairey cannot stay away from bad-boy stuff. He and his friends went to New York's Chinatown one night and went "bombing," as they call it. Finding a blank billboard, Fairey managed to get to the roof of the building with an 8-foot rolled poster and some paste. He got the image on, but someone called the police and he was arrested for criminal mischief and trespassing, spending 48 hours in jail, his ninth bust. Even with that rap sheet, he gets courted by mainstream firms. His previous company BLK/MRKT has worked with Mountain Dew, Levi Strauss, Sunkist, Dr. Pepper, and Universal Pictures. After he posted bail, he had work to do, including designs for Express Jeans and Obey Giant clothing, based on his continuing Obey Giant images. These companies love him because they have trouble reaching the elusive demographic of young males, who are difficult to target, watch little television, and are cynical

toward normal advertisements. When young people take Fairey's posters or stickers and put them on their own bulletin boards, the advertisers know the campaign worked. But how can you achieve this kind of success. Fairey says its instinct, like Louis Armstrong's response when he was asked to define jazz: "If you have to ask, you'll never know."

Often clients are vague with Fairey. Make it cool, they say. Make it urban. He retorts: "Urban like hip-hop, like black? Or urban like disaffected suburban white graffiti kids?" Then they get more specific.

Fairey's former company BLK/MRKT took in \$1 million per year and it will not be long before Studio Number One follows suit. He hates ads that insult the customer, that are unintelligent.

How can Fairey remain true to his street image when he is raking in the dough from the fat multinational corporations (MNCs)? He is not alone. Many entrepreneurs struggle with issues of integrity, the conflict between what they want to do and what the market is going to pay them to do. "Sometimes I feel like a double agent," he says. He wants to do work that is fun, with clients that can be hip, and he does have his boundaries: no tobacco companies. If he could redo the advertising world so all marketing materials were smart, creative, and art-like, well, that would be great. He says, "It sounds pretty utopian to me."

SOURCE: Rob Walker, "The Buzz Guru," *Inc. Magazine* (March 2004): 105–109.

One reason higher levels of ethical conduct are increasingly important is the impact of globalization. Globalization has made ethical issues even more complicated for today's managers.²⁶ American managers working in foreign countries need sensitivity and an openness to other systems, as well as the fortitude to resolve difficult issues. For example, though tolerance for bribery is waning, a recent survey revealed disturbing results. Transparency International, an international organization that monitors corruption, publishes an annual report ranking countries according to how many bribes are offered by their international businesses. Exhibit 4.3 shows results of the organization's most recent available report. International businesses based in countries like Russia, China, Taiwan, and South Korea were found to be using bribes "on an exceptional and intolerable scale." However, multinational firms in the United States, Japan, France, and Spain revealed a relatively high propensity to pay bribes overseas.²⁷

The Organization

Rarely can ethical or unethical corporate actions be attributed solely to the personal values of a single manager. The values adopted within the organization are highly important, especially when we understand that most people are at the level two of moral development, which means they believe their duty is to fulfill obligations and expectations of others. Consider, for example, accounting managers at WorldCom, which disintegrated in an \$11 billion fraud scandal.

WorldCom started out as a small long-distance company and rapidly became a dazzling star during the late 1990s Wall Street telecom boom. Just as rapidly, it all came crashing down as one executive after another was hauled away on conspiracy and securities fraud charges.

For Betty Vinson and Troy Normand, the first signs of serious trouble came in mid-2000. With the telecom industry in a slump, top executives were scrambling to meet Wall Street's expectations for the quarter. Vinson and Normand's boss, Buford Yates, called the two into his office and broke the news. CEO Bernard Ebbers and Chief Financial Officer Scott Sullivan had asked that they make some highly questionable accounting adjustments—to the tune of \$828 million—that would reduce expenses and boost the company's earnings for the quarter. Though the managers were initially shocked by the request and resisted, they agreed to go along. Despite the misgivings they and Yates all felt, the accountants continued to make increasingly irregular adjustments over the course of six quarters, hoping that each one would be the last.

Top executives persuaded these managers, who were all known as hardworking, dedicated employees, that their gimmicks would help pull WorldCom out of its troubles

WorldCom

Rank		Score	Rank		Score
1	Australia	8.5	12	France	5.5
2	Sweden	8.4	13	United States	5.3
2 (tie)	Switzerland	8.4	13 (tie)	Japan	5.3
4	Austria	8.2	15	Malaysia	4.3
5	Canada	8.1	15 (tie)	Hong Kong	4.3
6	Netherlands	7.8	17	Italy	4.1
6 (tie)	Belgium	7.8	18	South Korea	3.9
8	United Kingdom	6.9	19	Taiwan	3.8
9	Singapore	6.3	20	People's Republic of China	3.5
9 (tie)	Germany	6.3	21	Russia	3.2
11	Spain	5.8			

A score of 10 represents zero propensity to pay bribes, while a score of 0 reflects very high levels of bribery.

EXHIBIT 4.3

The Transparency International Bribe Payers Index 2002

SOURCE: Transparency International, <http://www.transparency.org>.

and get everything back to normal. A colleague of Vinson's says she felt that she needed to go along with her bosses' requests despite her own concerns. To assuage her guilt, the colleague says, Vinson rationalized that CFO Sullivan had been hailed as one of the country's top chief financial officers. Therefore, if he thought the transfers and other gimmicks were all right, she was not one to question it.

When WorldCom's problems exploded into public view, Yates, Normand, and Vinson found themselves in the middle of the largest fraud case in corporate history. All three pled guilty to conspiracy and securities fraud, which will likely result in jail time.²⁸

Vinson, Normand, and Yates were not unscrupulous people. All three had misgivings about what they were doing, but they continued to go along with their superiors' requests. All ethical decisions are made within the context of our interactions with other people, and the social networks within an organization play an important role in guiding other people's actions. For most of us, doing something we know is wrong becomes easier when everyone else is doing it. In organizations, the norms and values of the team, department, or organization as a whole have a profound influence on ethical behavior. Perhaps HealthSouth's lapses in ethics, as shown in the Business Bloopers, contributed to its legal problems.

Research has verified that these values strongly influence employee actions and decision making.²⁹ In particular, corporate culture, as described in Chapter 2, lets employees know what beliefs and behaviors the company supports and those it will not tolerate. If unethical behavior is tolerated or even encouraged, it becomes routine. For example, an investigation of thefts and kickbacks in the oil business found that the cause was the historical acceptance of thefts and kickbacks. Employees were socialized into those values and adopted them as appropriate. In many companies, employees believe that if they do not go along, their jobs will be in jeopardy or they will not fit in.³⁰

Below is a questionnaire about ethical work environments. Fill it out to determine your level of ethical awareness.

Ethical Work Climates

Answer the following questions by circling the number that best describes an organization for which you have worked.

Disagree

1

2

3

4

Agree

5

1. What is the best for everyone in the company is the major consideration here.

1 2 3 4 5

BUSINESS BLOOPER

HealthSouth

Stars such as Faith Hill, Reba McEntire, and KC and the Sunshine Band performed at the annual mega-event (known as "The Prom") for HealthSouth managers, seven years in a row. Each meeting ran around \$3 million, most costs passed on to Medicare. This was only one of the many reasons the Justice Department accused the company of accounting

fraud two years ago, settling recently with HealthSouth, which had to pay \$325 million to the U.S. government. Those free-flowing parties/meetings did not help. When the Commodores were featured at "The Prom" two years ago, they should have sang, "I'm Easy."

SOURCE: Michael Tomberlin, "Medicare Paid for Big Stars," *Birmingham News* (Feb. 13, 2005): 1D, 3D.

2. Our major concern is always what is best for the other person.
1 2 3 4 5
3. People are expected to comply with the law and professional standards over and above other considerations.
1 2 3 4 5
4. In this company, the first consideration is whether a decision violates any law.
1 2 3 4 5
5. Following the company's rules and procedures is important here.
1 2 3 4 5
6. People in this company strictly obey the company policies.
1 2 3 4 5
7. In this company, people are mostly out for themselves.
1 2 3 4 5
8. People are expected to do anything to further the company's interests regardless of the consequences.
1 2 3 4 5
9. In this company, people are guided by their own personal ethics.
1 2 3 4 5
10. People in this company decide for themselves what is right and wrong.
1 2 3 4 5

Scoring

Subtract each of your scores for questions 7 and 8 from the number 6. Then, add up your adjusted scores for all ten questions: _____. 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 rules adherence, 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 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.

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 you work for.

SOURCE: Based on Bart Victor and John B. Cullen, "The Organizational Bases of Ethical Work Climates," *Administrative Science Quarterly* 33 (1988): 101–125.

Culture can be examined to see the kinds of ethical signals given to employees. Exhibit 4.4 indicates questions to ask to understand the cultural system. High ethical standards can be affirmed and communicated through public awards and ceremonies. Heroes provide role models that can either support or refute ethical decision making. Culture is not the only aspect of an organization that influences ethics, but it is a major force because it defines company values. Other aspects of the organization, such as explicit rules and policies, the reward system, the extent to which the company cares for its people, the selection system, emphasis on legal and professional standards, and leadership and decision processes, can have an impact on ethical values and manager decision making.³¹

social responsibility

The obligation of organization management to make decisions and take actions that will enhance the welfare and interests of society as well as the organization.

EXHIBIT 4.4*Questions for
Analyzing a
Company's Cultural
Impact on Ethics*

SOURCE: Linda Klebe Treviño, "A Cultural Perspective on Changing and Developing Organizational Ethics," in *Research in Organizational Change and Development*, ed. R. Woodman and W. Pasmore (Greenwich, Conn.: JAI Press, 1990), 4.

1. Identify the organization's heroes. What values do they represent? Given an ambiguous ethical dilemma, what decision would they make and why?
2. What are some important organizational rituals? How do they encourage or discourage ethical behavior? Who gets the awards; people of integrity or individuals who use unethical methods to attain success?
3. What are the ethical messages sent to new entrants into the organization—must they obey authority at all costs, or is questioning authority acceptable or even desirable?
4. Does analysis of organizational stories and myths reveal individuals who stand up for what's right, or is conformity the valued characteristic? Do people get fired or promoted in these stories?
5. Does language exist for discussing ethical concerns? Is this language routinely incorporated and encouraged in business decision making?
6. What informal socialization processes exist, and what norms for ethical/unethical behavior do they promote?

What Is Social Responsibility?

Now turn to the issue of social responsibility. In one sense, the concept of corporate social responsibility, like ethics, is easy to understand: It means distinguishing right from wrong and doing the right thing. It means being a good corporate citizen. The formal definition of **social responsibility** is management's obligation to make choices and take actions that will contribute to the welfare and interests of society as well as the organization.³²

As straightforward as this definition seems, social responsibility can be a difficult concept to grasp because different people have different beliefs as to which actions improve society's welfare.³³ To make matters worse, social responsibility covers a range of issues, many of which are ambiguous with respect to right or wrong. For example, 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 into bankruptcy or a forced merger? Or consider companies such as Chiquita, Kmart, or Global Crossing, all of which declared bankruptcy—which is perfectly legal—to avoid mounting financial obligations to suppliers, labor unions, or competitors. These examples contain moral, legal, and economic considerations that make socially responsible behavior hard to define. A company's environmental impact must also be considered.

Organizational Stakeholders

One reason for the difficulty understanding social responsibility is that managers must confront the question, "Responsibility to whom?" Recall from Chapter 2 that the organization's environment consists of several sectors in the task and general environment. From a social responsibility perspective, enlightened organizations view the internal and external environment as various stakeholders.

A **stakeholder** is any person or group within or outside the organization that has a stake in the organization's performance. Each stakeholder has a different criterion of responsiveness because it, he, or she has a different interest in the organization.³⁴ For example, Wal-Mart uses aggressive bargaining tactics with suppliers so that it can provide low prices for customers. Some stakeholders see this as responsible corporate behavior because it benefits customers and forces suppliers to be more efficient. Others, however, argue that the aggressive tactics are unethical and socially irresponsible because they force U.S. manufacturers to lay off workers, close factories, and outsource from low-wage countries. For instance, Wal-Mart now purchases nearly 10 percent of all Chinese imports to the United States. One supplier said clothing is being sold so cheaply at Wal-Mart that many U.S. companies could not compete even if they paid their employees nothing.³⁵

stakeholder

Any person or group within or outside the organization that has a stake in the organization's performance.

The organization's performance affects stakeholders, but stakeholders can have a tremendous effect on the organization's performance and success. Consider the case of Monsanto, a leading competitor in the life sciences industry.

Over the past decade or so, Monsanto has been transformed from a chemical firm into a biotechnology company. The organization has a vast array of stakeholders from around the world, including customers, investors, suppliers, partners, health and agriculture organizations, regulatory agencies, research institutes, and governments.

Monsanto has experienced some big problems in recent years because of its failure to satisfy various stakeholder groups. For example, the company's genetic seed business has been the target of controversy and protest. European consumers rebelled against a perceived imposition of unlabeled, genetically modified food ingredients. Research institutes and other organizations took offense at what they perceived as Monsanto's arrogant approach to the new business. Activist groups accused the company of creating "Frankenstein foods." Partly as a result of these public sentiments, Monsanto has had trouble getting regulatory approval for its genetically modified organisms, including seeds for wheat, corn, soy, and other crops. Investor confidence in the company waned, too, and the stock took a downhill slide.

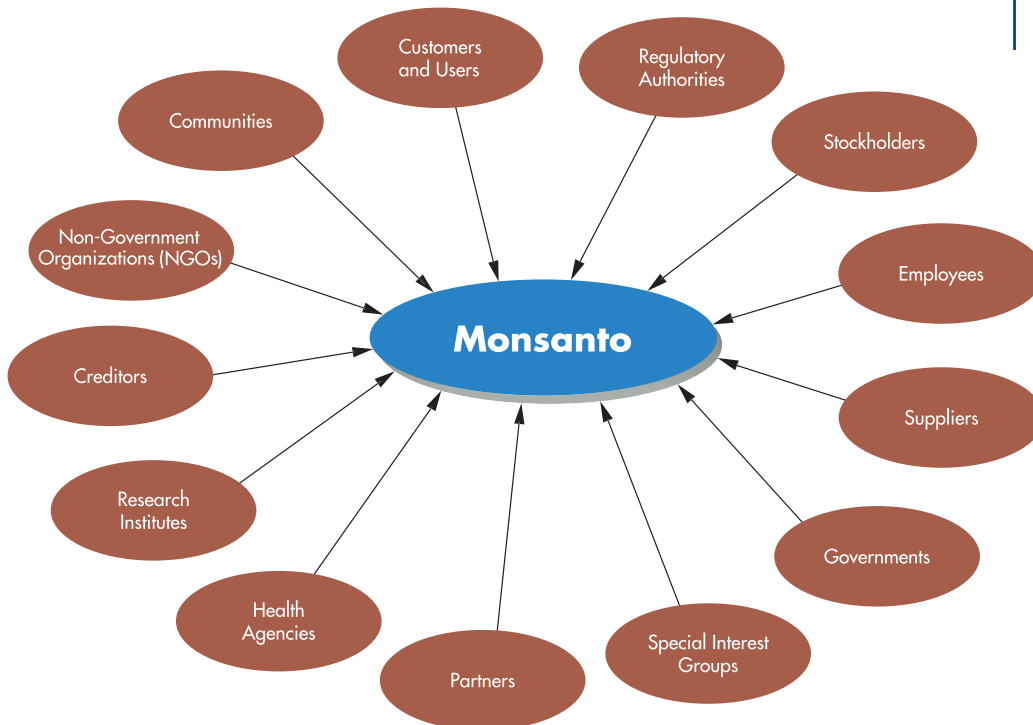
The leadership has promised an ongoing dialogue between Monsanto managers and various stakeholder constituencies. If it cannot effectively manage critical stakeholder relationships, Monsanto is not likely to survive as a business.³⁶

Exhibit 4.5 illustrates important stakeholders for Monsanto. Most organizations are similarly influenced by various 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

Monsanto

EXHIBIT 4.5

Major Stakeholders
Relevant to
Monsanto Company



SOURCES: 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; and 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.

FOCUS ON LEADERSHIP

PeaceWorks

Daniel Lubetzky is solving the world's problems, on a microlevel anyway, through condiments and coconut milk. The recent Stanford Law grad was in Tel Aviv 10 years ago when he ate something so mouth-watering he wanted more: sun-dried tomato spread. After he bought the store out, he tracked down the manufacturer, Israeli Yoel Benesh, who had gone out of business. Lubetzky made Benesh a business proposition: If he would get the sun-dried tomatoes from Turkey rather than Italy, olives and oil from Palestine, and jars from Egypt instead of Portugal, Lubetzky would take care of marketing the product in the United States. Lubetzky figured the condiments would benefit Israelis and Arabs as they would be forced to trade together, weaving a profitable web of commerce between them.

With \$10,000 of his savings and some from his parents, he launched PeaceWorks and introduced its first product: Moshe and Ali Spratés. Later, it began marketing a women-owned line from Indonesia which brings together Muslims, Buddhists, and

Christians; plus a Sri Lankan coconut milk that brings collaboration between the warring Tamils and Sinhalese. Lubetzky says his company is "not only for-profit"—meaning it not only makes money but serves a social cause. In addition, it donates a portion of profits to its foundation, which promotes forums between Palestinians and Israelis to resolve conflicts.

PeaceWorks sells its products in 5,000 U.S. stores and grosses \$10 million. But it is not all rosy. Violence in the Middle East has not stopped. Still, the Mexican-born, 36-year-old son of a Holocaust survivor takes comfort in small victories. "At the company, micro, personal level, this works," he says. Which means the Arabs and Israelis who work together or the 1,000 Muslims, Jews, and Christians he employs. "I never think this is a waste of time. There are times when I wonder if it will ultimately help change the situation. But I can't live my life accepting defeat."

SOURCES: Elaine Pofelt, "Food for Peace," *FSB*, (Jan. 2005): 100–104; Jessica Steinberg, "One Heart at a Time," *Fast Company* (Nov. 2004): 49.

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.³⁷ A unique approach to stakeholders is taken by PeaceWorks, as described in the Focus on Leadership box.

Other important stakeholders are the government and the community. Most corporations exist only under the proper charter and licenses and operate within the limits of safety laws, environmental protection requirements, antitrust regulations, and other laws and regulations in the government sector. The community includes local government, the natural and physical environments, and the quality of life provided for residents. Special interest groups (SIGs), still another stakeholder, may include trade associations, political action committees, professional associations, and consumerists. Social activists have discovered the power of the Internet for organizing stakeholders and pressuring corporations to honor their ethical, human rights, and environmental responsibilities. One organization, the As You Sow foundation (AYS), uses the Internet to mobilize investors and shareholders to push for social reforms, as described in the Digital, Inc. box.

Socially responsible organizations consider the effects of their actions on all stakeholder groups and may invest in a number of philanthropic causes that benefit stakeholders. Bristol-Myers Squibb Company, for example, provides funding for health clinics in areas of Texas, California, and Florida to hire promotoras de salud, or peer health educators, to help fight Type 2 diabetes in the Hispanic population. Typically, Hispanic women who themselves have diabetes, the promotoras de salud are trained to work full time as accessible community resources. By answering questions, assuring compliance with medications, and providing nutritional advice, they help patients control their disease and provide needed support for overworked and stressed nurses who do not have the time or Spanish language skills to address all the concerns of their many patients.³⁸

Today, SIGs continue to be one of the largest stakeholder concerns that companies face. Environmental responsibility has become a primary issue as business and the public acknowledge the damage that has been done to our natural environment.

DIGITAL, INC.

Using the Web to Promote Social Responsibility

The Internet has become a crucial weapon in the fight to make corporations more socially responsible. For example, social activists have long used shareholder pressure as an important means of promoting their goals. Now, with the ability to rapidly spread information on the Web, nonprofit organizations such as the As You Sow foundation (AYS) can quickly rally shareholders and mount campaigns against corporate practices they consider irresponsible.

AYS is a not-for-profit organization with a mission to promote corporate responsibility and "hold corporations accountable for complying with consumer, workplace, and environmental laws." It does so by engaging in dialogue with corporations concerning social responsibility issues and by organizing shareholder campaigns when companies balk at voluntary efforts. AYS works closely with other activist organizations such as the Interfaith Center on Corporate Responsibility (ICCR), a group of Protestant, Catholic, and Jewish institutional investors that pioneered shareholder

activism in the 1970s, and the Shareholder Action Network, an information, networking, and resource center that AYS helped to found. One shareholder campaign resulted in Home Depot agreeing to phase out the sale of old-growth timber, for example.

AYS is currently involved in dialogues with companies like Wal-Mart, Nike, McDonald's, and the Walt Disney Company concerning labor and human rights abuses in contract supplier plants. A current shareholder campaign against genetically altered foods, targeting companies such as DuPont, Hershey, Kellogg, and Sysco, has become the fastest growing shareholder movement in history. Project director Tracey Rembert explains the value of using the Internet for social activism: "It used to be you'd call 20 people you know on the telephone and ask them to write a letter.... Now you can bring together many more people with just one e-mail. You can accomplish in one year what it might have taken ten years of pickets and protests in the streets to accomplish."

SOURCE: Mark Schapiro, "All Over the Board," *grok* (February-March 2001): 110-112; and <http://www.asyousow.org> accessed on February 27, 2004.

The Ethic of Sustainability and the Natural Environment

When the first Earth Day celebration was held in 1970, most managers considered environmentalists to be an extremist fringe group and felt little need to respond to environmental concerns.³⁹ Today, environmental issues are a hot topic among business leaders, and managers and organizations in all industries are jumping on the environmental bandwagon.

One model uses the phrase *shades of green* to evaluate a company's commitment to environmental responsibility.⁴⁰ The various shades, which represent a company's approach to addressing environmental concerns, are illustrated in Exhibit 4.6. With a legal approach, the organization does what is necessary to satisfy legal requirements. In general, managers and the company show little concern for environmental issues. For example, Willamette Industries of Portland, Oregon, agreed to install \$7.4 million worth of pollution control equipment in its 13 factories to comply with U.S. Environmental Protection Agency (EPA) requirements. The move came only after Willamette was fined a whopping \$11.2 million for violating emissions standards.⁴¹ The next shade, the market approach, represents a growing awareness of and sensitivity to environmental concerns, primarily to satisfy customers. A company might provide environmentally friendly products because customers want them, for instance, not necessarily because of strong management commitment to the environment. Judy Wicks provides environmentally friendly products, and she uses green energy for her restaurant, as described in the Best Practices box.



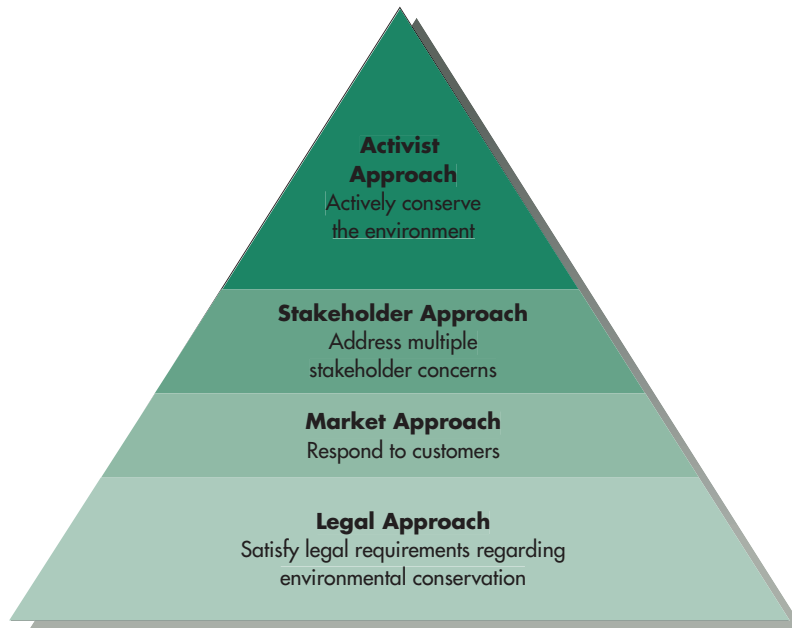
© AP/Wide World Photos

CONCEPT CONNECTION

Recently, Roxanne Quimby sold 80 percent of her company, Burt's Bees, a leading natural personal care brand, to a private-equity firm for more than \$175 million. She plans to donate half the proceeds to a land trust to establish a national park in northern Maine, demonstrating her commitment to the **natural environment** and the ethic of **sustainability**.

EXHIBIT 4.6

*The Shades of
Corporate Green*



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

Take ACTION

Do your part to recycle at work and at home.

A further step is to respond to multiple demands from the environment. The stakeholder approach means that companies attempt to answer the environmental concerns of various stakeholder groups, such as customers, the local community, business partners, and special interest groups. Ontario Power Generation, Shell, and Alcan Aluminum are among the large companies that are partnering with Environmental Defense to reduce greenhouse gases.⁴² The move comes in response to growing concerns among customers, communities where the companies operate, and environmental groups, as well as a recognition that emissions will probably be regulated by government actions.

BEST PRACTICES**White Dog Enterprises**

Judy Wicks got into the restaurant business by accident. Having just left her first husband (with whom she founded Urban Outfitters), she was driving her car in Philadelphia when she ran a light and rammed into another car. Broke and jobless, she poured out her heart to a bystander on the street who happened to own a nearby restaurant and needed a waitress. Wicks stayed there for 13 years, getting promoted to manager at La Terrasse. Toward the end, she was running a muffin shop out of her house down the street. When the expected offer to be co-owner of the restaurant did not materialize, she finished serving breakfast one day, quit La Terrasse, and expanded White Dog Café's menu, a practice she continues to this day.

Wick's efforts to make the world a better place include being the first Pennsylvania business run on electricity generated from wind power. Believing in building up the local economy, she gets her meats and vegetables come from local organic farms, and she helps them with small loans to buy supplies. She loves debates, even with the green business world, where she often proclaims, "Businesses should not grow bigger." Seeing business as a way of life, rather than merely a means for profit, she compares her feelings for White Dog Enterprises the same way farmers feel about their land. "My business," she says, "is really a way of expressing my love of life."

SOURCE: Jess McCuan, "Entrepreneurs We Love: Judy Wicks," *Inc. Magazine* (April 2004): 142.

Finally, at the highest level of green, organizations take an activist approach to environmental issues by actively searching for ways to conserve the Earth's resources. A growing number of companies around the world are embracing a revolutionary idea called sustainability or sustainable development. Sustainability refers to economic development that generates wealth and meets the needs of the current generation while saving the environment so future generations can meet their needs as well.⁴³ With a philosophy of sustainability, managers weave environmental and social concerns into every strategic decision, revise policies and procedures to support sustainability efforts, and measure their progress toward sustainability goals.

U.S. organizations as diverse as DuPont, McDonald's, and United Parcel Service (UPS) are grappling with issues related to sustainability. McDonald's, for example, buys some of its energy from renewable sources, has stopped buying poultry treated with antibiotics, and offers incentives to suppliers that support sustainable practices.⁴⁴ UPS released its first Corporate Sustainability Report in 2002, outlining how the company balances economic concerns with social responsibility and environmental stewardship.⁴⁵ The UPS fleet, for instance, includes around 2,000 alternative fuel vehicles, which emit 35 percent less pollution than standard diesel engines. The company is investing \$600 million on new package flow technologies that optimize how UPS delivers packages to improve service and reduce miles driven.⁴⁶ DuPont has developed biodegradable materials for plasticware, a stretchable fabric called Sorona that is made partially from corn, and a housing insulation wrap that saves far more energy than is required to produce it. The company's new mission is to manage a collection of businesses that can go on forever without depleting any natural resources.⁴⁷

Despite these impressive advances, few U.S. firms have fully embraced the principles of sustainability, as reflected in a resistance to adopting ISO 14001 standards.⁴⁸ ISO 14001 is an international environmental management system that aims to boost the sustainability agenda. To become ISO 14001-compliant, firms develop policies, procedures, and systems that reduce the organization's impact on the natural environment. Sustainability argues that organizations can find innovative ways to create wealth at the same time they are preserving natural resources. ZipCar, for example, rents cars by the hour, 24 hours a day, with no paperwork. By reducing private car usage, ZipCar contributes to reduced emissions and reduced load on the nation's transit infrastructure.⁴⁹

Evaluating Corporate Social Performance

A model for evaluating total corporate social responsibility is presented in Exhibit 4.7. The model indicates that total corporate social responsibility can be subdivided 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. Managers and organizations are typically involved in several issues simultaneously, and a company's ethical and discretionary responsibilities are increasingly considered as important as economic and legal issues. Social responsibility has become an important topic on the corporate agenda in the light of corporate scandals, concerns about globalization, and a growing mistrust of business.⁵¹

Note the similarity between the categories in Exhibit 4.7 and those in Exhibit 4.1. In both cases, ethical issues are located between the areas of legal and freely discretionary responsibilities. Exhibit 4.7 has an economic category because profits are a major reason for corporations' existence.

sustainability

Economic development that meets the needs of the current population while preserving the environment for the needs of future generations.



© AP/Wide World Photos

CONCEPT CONNECTION

For businesses, the first criterion of corporate social responsibility is **economic responsibility**. Recently, companies such as Enron, Lucent, and Nortel have failed to carry out their economic responsibility, especially when the value of the company stock plummeted. Not only did Enron employees such as those in the photo lose their jobs, but some lose most of their 401(k) retirement plans. One 61-year-old administrative assistant, who had dutifully placed 15 percent of her salary into a 401(k) plan, invested the entire amount in the company's rapidly climbing stock. She amassed close to \$500,000, only to be forced out of work with a 401(k) worth only \$22,000 when Enron collapsed.

Total Corporate Social Responsibility



SOURCE: Based on Archie B. Carroll, "A Three-Dimensional Conceptual Model of Corporate Performance," *Academy of Management Review* 4 (1979), 499; and "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Corporate Stakeholders," *Business Horizons* 34 (July–August 1991), 42.

EXHIBIT 4.7

Criteria of Corporate Social Performance

Economic Responsibilities

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.⁵²

The purely profit-maximizing view is no longer considered an adequate criterion of performance in Canada, the United States, and Europe. This approach means that economic gain is the only social responsibility but, in today's world, can lead companies into trouble.

Legal Responsibilities

All modern societies lay down ground rules, laws, and regulations that businesses are expected to follow. Legal responsibility defines what society deems as important with respect to appropriate corporate behavior.⁵³ Businesses are expected to fulfill their economic goals within the legal framework. Legal requirements are imposed by local town councils, state legislators, and federal regulatory agencies.

Organizations that knowingly break the law are poor performers in this category. Intentionally manufacturing defective goods or billing a client for work not done is illegal. Tenet Healthcare paid \$54 million to settle a federal lawsuit charging that one of its hospitals was cheating Medicare by performing unnecessary cardiac procedures.⁵⁴ Managers at numerous other companies have learned that organizations ultimately pay for ignoring their legal responsibilities. An example of the punishment given to one company that broke the law is described in the press release shown in Exhibit 4.8.

Ethical Responsibilities

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 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.⁵⁵ Unethical behavior occurs when decisions enable an individual or company to gain at the expense of other people or society as a whole. For example, at *The New York Times*, there are indications that managers suspected star reporter Jayson Blair was fabricating research on top news stories, but they ignored the signals partly to protect the paper's reputation and because they were concerned about questioning a rising young African-American reporter. Their head-in-the-sand approach ultimately backfired when the deception became known and the paper published a lengthy story admitting how Blair had systematically fabricated or plagiarized as many as three dozen stories.⁵⁶

EXHIBIT 4.8

*One Company's
Punishment for
Breaking the Law*



EPA United States
Environmental Protection Agency

Headquarters Press Release

Washington, DC

Date: 07/12/2001
Published:
Title: WASHINGTON STATE/ALASKA COMPANY SENTENCED
IN ASBESTOS CASE

FOR RELEASE: THURSDAY, JULY 12, 2001
WASHINGTON STATE/ALASKA COMPANY SENTENCED IN
ASBESTOS CASE

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On June 27, Great Pacific Seafood, a Washington State corporation operating in Alaska, and its General Manager, Roger D. Stiles, were sentenced for violations of the Clean Air Act. Great Pacific Seafood was sentenced to serve five years probation, pay a \$75,000 fine, pay \$7,000 in restitution, publish a public apology statement in the local newspaper and adopt an environmental management program. Stiles was sentenced to pay a \$5,000 fine, perform 120 hours of community service, and serve two to three years probation. Great Pacific Seafood and Stiles pleaded guilty to having five of its employees directly or indirectly exposed to asbestos fibers without the proper training, equipment or protective clothing. The hazardous nature of abatement was never disclosed to two of the employees. Failure to follow asbestos work practices can expose workers to the inhalation of airborne asbestos fibers which can cause lung cancer, a lung disease known as "asbestosis" and mesothelioma, a cancer of the chest and abdominal cavities. This case was investigated by the EPA Criminal Investigation Division, the FBI and the Alaska State Occupational Safety and Health Administration. Technical assistance was provided by the EPA Office of Air Quality. The case was prosecuted by the U.S. Attorney's Office in Anchorage.

R-105 ###

Go to the ethical dilemma on page 150 that pertains to legal and ethical responsibilities.

TAKE A MOMENT

Discretionary Responsibilities

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. An example of discretionary behavior occurred when General Mills spent \$2.5 million and donated thousands of hours of employee time to help rid a neighborhood of crime and drugs. Known as the *Hawthorne Huddle*, General Mills executives worked with law enforcement, politicians, community leaders, and residents to clean up the Minneapolis, Minnesota, neighborhood. Today, Hawthorne homicides have dropped 32 percent and robberies 52 percent. Crack houses have been bulldozed to make way for a new elementary school, and low-income families are buying and repairing homes with General Mills' grants. The company has been a leader in fulfilling discretionary responsibilities since the late 1800s, when it built an orphanage that continues today as a child guidance center.⁵⁷ Discretionary responsibility is the highest criterion of social responsibility because it goes beyond societal expectations to contribute to the community's welfare.

discretionary responsibility

Organizational responsibility that is voluntary and guided by the organization's desire to make social contributions not mandated by economics, law, or ethics.

Take ACTION

Remember that your company needs to make a profit, be a good citizen, and follow the law, as well as being moral.

Managing Company Ethics and Social Responsibility

Many managers are concerned with improving the ethical climate and social responsiveness of their companies. As one expert on the topic of ethics said, "Management is

CONCEPT CONNECTION

In 2004, The Home Depot demonstrated its commitment to **discretionary responsibility** by celebrating its 25th anniversary with its first ever Week of Service. During the week, 34,500 associates donated more than 260,000 volunteer hours to complete over 1,600 service projects in partnership with national nonprofit organizations, Hands on Network and KaBOOM! Based on its inaugural success, the Week of Service will now be an annual celebration of volunteerism.

Courtesy of The Home Depot.



responsible for creating and sustaining conditions in which people are likely to behave themselves.”⁵⁸ Managers must take active steps to ensure that the company stays on an ethical footing. As we discussed earlier in this chapter, ethical business practices depend on individual managers and the organization’s values, policies, and practices. Exhibit 4.9 illustrates the three pillars that support an ethical organization.⁵⁹

Ethical Individuals

Managers who are essentially ethical individuals make up the first pillar. These individuals possess honesty and integrity, which is reflected in their behavior and decisions. People inside and outside the organization trust them because they can be relied

EXHIBIT 4.9

The Three Pillars of 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.

on to follow the standards of fairness, treat people properly, and be ethical in their dealings with others. Ethical individuals strive for a high level of moral development, as discussed earlier in the chapter. Patrick Kuhse knows the dangers of not being ethical, as described in the Focus on Skills box.

However, being a moral person and making ethical decisions is not enough. Ethical managers must encourage the moral development of others.⁶⁰ They find ways to focus the entire organization's attention on ethical values and create an organizational environment that encourages, guides, and supports the ethical behavior of all employees. Two additional pillars are needed to provide a strong foundation for an ethical organization: ethical leadership and organizational structures and systems.

Go to the Manager's Workbook on page 149 that pertains to ethical decisions.

TAKE A MOMENT

Ethical Leadership

In a study of ethics policy and practice in successful, ethical companies, no point emerged more clearly than the crucial role of leadership.⁶¹ Employees are acutely aware of their bosses' ethical lapses, and the company grapevine quickly communicates situations in which top managers choose an expedient action over an ethical one.⁶² The primary way in which leaders set the tone for an organization's ethics is through their own behavior. In addition, leaders make a commitment to ethical values and help others throughout the organization embody and reflect those values.⁶³

If people do not hear about values from top leadership, they get the idea that ethical values are not important in the organization. Peter Holt, CEO of the Holt Companies, sees himself as the company's chief ethics officer. Ethical values are woven into the organizational culture, and Holt continually works to renew the values and signal his total commitment to them. Most importantly, he visits each of the firm's locations twice a year to meet with employees, answer questions, and talk about the importance of each employee upholding Holt's core values every day in every action. Holt's evaluation and reward systems are tied to how well managers and employees live the values in their everyday actions.⁶⁴ Using performance reviews and rewards effectively is a powerful way for managers to signal that ethics counts. Consistently rewarding ethical behavior and disciplining unethical conduct at all levels of the company is a critical component of providing ethical leadership.⁶⁵

Take **ACTION**

As a leader, others look to you as a role model for ethical behavior.

FOCUS ON SKILLS

Patrick Kuhse

After spending four years in the federal penitentiary, Patrick Kuhse wants to warn college students that lapses in ethical behavior can be dangerous. His quest for money and a feeling of invincibility—common for young people, he says—were part of the reason he bribed a public official while working at a financial planning company. To avoid prosecution, he fled to Costa Rica but soon realized he did not want to live as an outlaw and turned himself in to the American Embassy.

Now he gives talks at universities whenever he can. Maybe he can help prevent others from making the same mistakes. You do a little here, cut a little there, he says, and soon you see the world differently. Whether it is music sharing or plagiarizing,

students make ethical decisions that shape their future mindsets. Unethical behavior looks increasingly correct.

Sometimes you get a job, sign an ethics statement, and then your boss takes you into another room and says, "Now this is the way we really do this here." That's why Kuhse thinks college students need to learn the old adage: Money is not everything.

Kuhse advises to surround yourself with mentors, people of integrity whom you trust, such as your parents, siblings, spouse. Then listen to them. "I was relatively OK," he says, "until I stopped listening to my mom and my wife."

SOURCE: Zachary Mesenbourg, "Speaker Challenges Students Ethics," *The Post-Standard* (April 23, 2004): C6.

Organizational Structures and Systems

The third pillar of ethical organizations is the set of tools that managers use to shape values and promote ethical behavior throughout the organization. Three of these tools are a code of ethics, ethical structures, and mechanisms for supporting whistle-blowers.

code of ethics

A formal statement of the organization's values regarding ethics and social issues.

Take ACTION

Prepare your own code of ethics for how you want to do business, be a student, and live your life.

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. A code of ethics tends 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. General statements of principle are often called corporate credos. One good example is Johnson & Johnson's "The Credo."⁶⁶ Another view of such a code comes from Wolf von Bergstedt, as shown in the Focus on Ethics box.

Policy-based statements generally outline the procedures to be used in specific ethical situations. These situations include marketing practice, conflicts of interest, observance of laws, proprietary information, political gifts, and equal opportunities. Examples of policy-based statements are Boeing's "Business Conduct Guidelines," Chemical Bank's "Code of Ethics," GTE's "Code of Business Ethics" and "Anti-Trust and Conflict of Interest Guidelines," and Norton's "Norton Policy on Business Ethics."⁶⁷

A code of ethics states the values or behaviors that are expected and those that will not be tolerated, backed up by management's action. A survey of *Fortune* 1,000 companies found that 98 percent address issues of ethics and business conduct in formal corporate documents, and 78 percent of those widely distribute a separate code of ethics.⁶⁸ When top management supports and enforces these codes, including rewards for compliance and discipline for violation, ethics codes can uplift a company's ethical climate.⁶⁹ The code of ethics for *The Milwaukee Journal Sentinel* gives employees some guidelines for dealing with ethical questions.

FOCUS ON ETHICS

Code of Ethics

Wolf von Bergstedt thinks we need a new set of world commandments because we live in a technological age with factories and MNCs, which have massive wealth. Von Bergstedt calls them "Universal Laws." Here they are:

1. No planet damage
2. No body damage
3. No lying
4. No stealing
5. No abandonment
6. No enslavement
7. No rape
8. No murder
9. No death wars

Imagine if all companies followed these Universal Laws. Number 1 would restrain pollution and number 2 would require factories and workplaces to be safe. Take a look at number 3. It does not say that you cannot lie about others; it just says no lying. That includes you. Therefore, managers and executives would have to tell the truth about what they did, could not cover up wrongdoing, and could not inflate revenues to increase stock prices. Number 4 means they could not embezzle money or use company funds for personal use (like former Tyco CEO Dennis Koslowski who spent \$5,000 of Tyco money for his home shower curtain). The only other two that are directly related to business are number 5, about mass layoffs with no safety net, and number 6, which covers sweat shops exploiting workers in developing countries.

Here is a code of ethics easy to read, easy to print on a little card, and easy to remember. Without the "NOs" it is only 12 words. Words to live by. Words for business.

SOURCE: Wolf von Bergstedt, "Code of Ethics," *The Tennessean* (March 4, 2005): 11A.

In recent years, a spotlight has been cast on newspaper publishers and other media outlets in the wake of charges of plagiarism and other ethical violations. As a result, many companies are putting renewed emphasis on journalistic standards of integrity.

Executives at Journal Communications, the parent company of *The Milwaukee Journal Sentinel*, hope the company's clear and comprehensive code of ethics will reinforce the public's trust as well as prevent ethical misconduct. This excerpt from the opening sections of the code outlines some broad provisions for what the company stands for:

"Journal Communications and its subsidiaries operate in a complex and changing society. The actions of the company's employees, officers, and directors clearly affect other members of that society. Therefore, every employee has an obligation to conduct the day-to-day business of the company in conformity with the highest ethical standards and in accordance with the various laws and regulations that govern modern business operations....

Journal Communications' ethical standards embrace not only the letter of the law, but also the spirit of the law. To that end, we must apply plain old-fashioned honesty and decency to every aspect of our job. We must never sacrifice ethics for expedience. Broadly put, we should treat others fairly and with respect.

If faced with an ethical question, we should ask:

- Is this action legal?
- Does it comply with company policies and/or good business conduct?
- Is it something I would not want my supervisors, fellow employees, subordinates or family to know about?
- Is it something I would not want the general public to know about?

We must not condone illegal or unethical behavior...by failing to report it, regardless of an employee's level of authority.... The company will protect us if we bring unethical activity to its attention."

Journal Communications' code of ethics includes statements concerning respect for people, respect for the company, conflicts of interest, unfair competition, relationships with customers, suppliers, and news sources, confidential information, and accepting gifts and favors.⁷⁰

By giving people some guidelines for confronting ethical questions and promising protection from recriminations for people who report wrongdoing, Journal Communications' code of ethics gives all employees the responsibility and the right to maintain the organization's ethical climate.

Ethical Structures. Ethical structures represent the various systems, positions, and programs a company can undertake to implement ethical behavior. An **ethics committee** is a group of executives appointed to oversee company ethics. The committee provides rulings on questionable ethical issues. The ethics committee assumes responsibility for disciplining wrongdoers, which is essential if the organization is to directly influence employee behavior. For example, Motorola has an Ethics Compliance Committee charged with interpreting, clarifying, and communicating the company's code of ethics and with adjudicating suspected code violations. Many companies, such as Sears Roebuck, Northrop Grumman, and Columbia/HCA Healthcare, have set up ethics offices with a full-time staff to ensure that ethical standards are an integral part of company operations. These offices are headed by a **chief ethics 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

ethics committee

A group of executives assigned to oversee the organization's ethics by ruling on questionable issues and disciplining violators.

chief ethics officer

A company executive who oversees ethics and legal compliance.

ethics training

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

managers in the ethical and compliance aspects of decisions.⁷¹ The title of chief ethics officer was almost unheard of a decade ago, but the demand for these ethics specialists has grown because of highly publicized ethical and legal problems faced by companies in recent years. The Ethics Officer Association, a trade group, reports that membership has soared to more than 955 companies, up from only 12 in 1992.⁷² Most ethics offices work as counseling centers to help employees resolve difficult ethical issues. A toll-free confidential hotline allows employees to report questionable behavior as well as seek guidance concerning ethical dilemmas.

Ethics training programs also help employees deal with ethical questions and translate the values stated in a code of ethics into everyday behavior.⁷³ Training programs are an important supplement to a written code of ethics. Boeing and Verizon Communications require all employees to go through ethics training each year; at Boeing, senior managers get at least five hours annually. At McMurray Publishing Company in Phoenix, Arizona, all employees attend a weekly meeting on workplace ethics, where they discuss how to handle ethical dilemmas and how to resolve conflicting values.⁷⁴

A strong ethics program is important, but it is no guarantee against lapses, as shown in the Business Bloopers box. Krispy Kreme Donut's problems do not stop with donuts. It has recently admitted to grossly overinflating its earnings.

Enron Corp. boasted of a well-developed ethics program, but managers failed to live up to it. Enron's problems sent a warning to other managers and organizations. Having an impressive ethics program is not enough. The ethics program must be merged with daily operations, encouraging ethical decisions to be made throughout the company.

whistle-blowing

The disclosure by an employee of illegal, immoral, or illegitimate practices by the organization.

Whistle-Blowing. Employee disclosure of illegal, immoral, or illegitimate practices on the employer's part is called **whistle-blowing**.⁷⁵ 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 blow the whistle if they detect illegal, dangerous, or unethical activities. Whistle-blowers often report wrongdoing to outsiders, such as regulatory agencies, senators, or newspaper reporters. One HealthSouth bookkeeper tried to blow the whistle by posting his concerns on a Yahoo! Inc. forum, but no one took the tip seriously.⁷⁶ Some firms have instituted innovative programs and confidential hotlines to encourage and support internal whistle-blowing. For this to be an effective ethical safeguard, however, companies must view whistle-blowing as a benefit to the company and make dedicated efforts to protect whistle-blowers.⁷⁷

When no effective protective measures exist, whistle-blowers suffer. Though whistle-blowing has become widespread in recent years, it is still risky for employees, who can lose their jobs, be ostracized by coworkers, or be transferred to lower-level positions. When Colleen Rowley of the Federal Bureau of Investigation (FBI) wrote a 13-page memo to FBI director Robert Mueller about agency failures and lapses that may have contributed to the September 11, 2001, terrorist attacks, she was well aware of the risks. "Due to the frankness with which I have expressed myself..." Rowley wrote, "I hope

Take ACTION

Change the name from whistle-blower to conscience-seeker and see how the behavior changes its meaning.

BUSINESS BLOOPER**Krispy Kreme Donuts**

Evidently not aware that the National Institutes of Health and other agencies have warned of rising childhood obesity, Palm County, Florida's Krispy Kreme Donuts started a school program that awards a free donut to students for every A on

their report cards. This shows a surprising lack of awareness regarding social consciousness of their customer base. Maybe from eating too much sugar.

SOURCE: Adam Horowitz, Mark Athitakis, Mark Lasswell, and Owen Thomas, "101 Dumbest Moments in Business," *Business 2.0* (Jan/Feb. 2005): 103-110.

my continued employment with the FBI is not somehow placed in jeopardy.” Fearing recriminations and suspecting that the FBI would suppress her allegations, Rowley also sent a copy of the memo to the Senate Intelligence Committee.⁷⁸

Laws protect government and private whistle-blowers from recrimination. However, many managers still look upon whistle-blowers as disgruntled employees who are not good team players. 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 created to protect employees who report illegal or unethical activities.

Ethical Challenges in Turbulent Times

The problem of lax ethical standards in business is nothing new, but in recent years it seems to have escalated. In addition, public reaction has been swift and unforgiving. Any ethical misstep can cost a company its reputation and hurt its profitability and performance. Consider Martha Stewart. Within months after she was charged with insider trading, her company's market capitalization plummeted \$400 million. After a jury found her guilty in early 2004, some were concerned about whether the company could even survive. Companies like Nike and Gap have been hurt by accusations of exploitative labor practices in Third World factories. Oil companies have been targeted for allegedly abusing the environment and contributing to a host of social ills in developing nations, and pharmaceutical firms have been accused of hurting the world's poor by pricing drugs out of their reach. Some have been accused of withholding information about their products. Organizational stakeholders including employees, shareholders, governments, and the general community are taking a keen interest in how companies conduct their business. Online dating companies have ethical issues regarding who they let use their services, as shown below.

Take **ACTION**

Honesty is always the best policy even if it is late and it means fessing up.

Looking for a date? There are more than 850 sites on-line to find that perfect mate. Do not worry about having to wade through hundreds of inappropriate people. You can go find someone who is simpatico with your values, your ethnic group, or your religion: BigChurch.com for Christians, SeniorFriendFinder.com for seniors, AsiaFriendFinder, Amigos.com, JewishFriendFinder, etc.

After breaking up with his girlfriend, Wei-Li Tjong needed an ego boost and a way to meet new women. On a whim, he went to one site and posted his Johnny Depp look-alike picture with a description of him as “passionate and sexy.” He got 12 responses that day. Within a few months, he had dated 70 women, most for after-dinner drinks of low commitment. He says about one third of the women went home with him. Maybe that is why customers are more willing to open their wallets for online dating services. The geographic reach is large, the results are immediate.

Some of the companies are large, subsidiaries of larger companies. For example, Match.com is owned by Ticketmaster and brings in about \$60 million yearly revenues for its parent company.

Issues these companies face are ethical and strategic. Do they allow married people to post ads? Yahoo! Inc., says yes, if they are truthful about their status, as they do not want to be “paternalistic.” Since almost one third of visitors to some sites are married, this is an important question. Some sites, such as Match.com, screen the application before they will post an ad, hoping to keep it to “singles only.” Important decisions involve how far to take this dating service. Matchmaker.com has periodic events where people can meet each other and is considering offering customers help with flowers, restaurants, etc.

People still keep signing up. Personal ads are more acceptable to the younger crowd, who see it as an opportunity to meet lots of potential dates. Older folks are not

Dating in Bytes

as likely to fork over the cash, and they tend to see personal ads as a last resort for losers. Even with the twenty-somethings, there are problems. Mr. Tjong found out people are not always truthful. One woman had gained “significant” weight since her photo. Others did not always live up to their descriptions. And, not surprisingly, the rate of second dates is quite low.

For Mr. Tjong, it took 70 dates to fall in love. Some might find that more exhausting than fun.⁷⁹

One reason for the proliferation of ethical lapses is the turbulence of our times. Things are moving so fast that managers who are not firmly grounded in ethical values can find themselves making poor choices because they do not have the time to weigh the situation carefully and exercise considered judgment. When organizations operate in highly competitive industries, rapidly changing markets, and complex cultural and social environments, a strong corporate culture that emphasizes ethical behavior becomes more important because it guides people to do the right thing in the face of confusion and change.⁸⁰

The combination of a turbulent domestic environment, the globalization of business, and increasing public scrutiny has convinced many managers to pay close attention to ethics and social responsibility as a business issue.⁸¹ New global standards are emerging that raise the public’s expectations about corporate responsibility to environmental and social ills. For example, in 1999, the United Nations General Assembly completed a Global Compact that outlines global ethical principles in the areas of human rights, labor standards, and the environment.⁸² At the same time, varied stakeholders are pushing new reporting initiatives connected to the sustainability movement that emphasize the triple bottom line of economic, social, and environmental performance. Today’s international environment includes a great deal of piracy of CDs, DVDs, and other goods. As a defense, some companies are trying to match the price of the pirates to win back customers.

Pirating DVD Movies

If you cannot beat ‘em, join ‘em. Or so it seems for Warner Brothers and NBC Universal movies, both of which have gotten badly beaten by rampant piracy in Russia, China, and Mexico. Even though DVDs in those countries only cost about \$3, it remains a huge gap for the people to pay when they can buy a pirated copy for only \$1. Warner Brothers and NBC Universal decided to give consumers a cheap and legal alternative to the illegitimate copies. They have started selling high-quality DVDs for around \$2 in China and Mexico, and will soon start one in Russia. Encouraged by the success Apple Computer had against Internet piracy by pricing its iPod songs at 99 cents, the movie studios hope to woo back international customers by slashing prices of CDs and DVDs that are legally manufactured. “There’s a value in legitimacy,” says Bob Wright, CEO of NBC Universal. But still, the companies are pushing for greater law enforcement abroad, as well.

Their plan may not work since the CDs and DVDs will still cost more than pirated copies. The movie studios will release more than 125 movies in each country next year, hoping to outdo the pirates. Some think it is a fool’s errand and the only solution is higher-priced copies with added features that cannot be copied. EMI just released Mexican band Intocable’s enhanced album, including a double CD, video, and photo album. Sales were 40,000 in the first three weeks. The signs are good.⁸³

Economic Performance

The relationship of a corporation’s ethics and social responsibility to its financial performance concerns managers and management scholars and has generated a lively debate.⁸⁴ One concern of managers is if good citizenship will hurt performance; after all, ethics programs cost money. A number of studies have been undertaken to determine if heightened ethical and social responsiveness increases or decreases financial performance. Studies have provided varying results but generally have found that small positive

relationship exists between social responsibility and financial performance.⁸⁵ For example, a recent study of the financial performance of large U.S. corporations considered “best corporate citizens” found that they have superior reputations and superior financial performance.⁸⁶ Similarly, Governance Metrics International, an independent corporate governance ratings agency in New York, found that the stocks of companies that run on more selfless principles perform better than those run in a self-serving manner. Top-ranked companies such as Pfizer, Johnson Controls, and Sunoco outperformed lower-ranking companies in measures such as return on assets, return on investment, and return on capital.⁸⁷ Though results from these studies are not proof, they do provide an indication that use of resources for ethics and social responsibility does not hurt companies.⁸⁸

Companies are making an effort to measure the nonfinancial factors that create value. Researchers have found, for example, that people prefer to work for companies that demonstrate a high level of ethics and social responsibility, so these organizations can attract and retain high-quality employees.⁸⁹ 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.⁹⁰ Enlightened companies realize that integrity and trust are essential elements in sustaining successful and profitable business relationships with an increasingly connected web of employees, customers, suppliers, and partners. Though doing the right thing might not always be profitable in the short run, it develops a level of trust that money cannot buy and will ultimately benefit the company. Many companies are becoming more socially responsible because they believe it provides a competitive advantage.⁹¹

Social Entrepreneurship

Some organizations are taking social responsibility to the extreme, building whole companies that combine good business with good citizenship. Maria Otero is CEO of ACCIÓN International, a leader in the microfinance industry. ACCIÓN partners with existing banks to give microloans that are used to start tiny businesses in poor countries. For example, a Bolivian woman used a \$100 loan to start a bread-making business using the mud oven in her one-room home. Six years later, she borrowed \$2,800 to expand to five mud ovens and a backyard storefront.⁹² Or consider Mitch Tobol. Tobol runs a full-service marketing agency in Port Washington, New York, that serves clients such as Weight Watchers International and Long Island Savings Bank. However, he and a friend also started an organization called Sparks, a sort of social club for learning disabled teens and adults.⁹³ The Sparks program serves 20 members, taking them to sporting events, dinners, and the theater, giving them opportunities to build strong social bonds and do the kinds of things most have never had a chance to do.

A new breed of entrepreneur has emerged—the **social entrepreneur**. Social entrepreneurs are leaders who are committed to good business and changing the world for the better. Social entrepreneurs have a primary goal of improving society rather than maximizing profits, but they demand high performance standards and accountability for results. One writer referred to the breed as a cross between Richard Branson (high-powered CEO of Virgin Airlines) and Mother Teresa.⁹⁴ Social entrepreneurship is not new, but the phenomenon has blossomed over the past 15 years, and the organizations being created defy the traditional boundaries between business and welfare.⁹⁵ For example, David Green, founder of Project-Impact, helped start a factory in India that makes inexpensive plastic lenses used in cataract surgery. The factory provides lenses, some at no cost, for 200,000 poor Indians a year. It also makes money—30 percent profit margins in 2003—and has captured 10 percent of the global market for intraocular lenses. Green has expanded his approach to other parts of the world, as well as the United States, and is adding hearing aids to the product mix.⁹⁶ The organizations created

social entrepreneur

Entrepreneurial leaders who are committed to good business and changing the world for the better.

by social entrepreneurs may or may not make a profit, but the bottom line for these companies is always social betterment rather than economic return.

Not every organization wants to become this closely involved in solving the world's social problems. However, companies that make an unwavering commitment to maintaining high standards of ethics and social responsibility will lead the way toward a brighter future for business and society.

Manager's Solution

Ethics and social responsibility are hot topics for today's managers. The ethical domain of behavior pertains to values of right and wrong. Ethical decisions and behavior are typically guided by a value system. Four value-based approaches that serve as criteria for ethical decision making are utilitarian, individualism, moral rights, and justice. For an individual manager, the ability to make correct ethical choices will depend on individual and organizational characteristics. An important individual characteristic is the level of moral development. Corporate culture is an organizational characteristic that influences ethical behavior. Strong ethical cultures become more important in turbulent environments because they help people make the right choices in the face of confusion and rapid change.

Corporate social responsibility concerns a company's values toward society. How can organizations be good corporate citizens? The model for evaluating social performance uses four criteria: economic, legal, ethical, and discretionary. Evaluating corporate social behavior often requires assessing its impact on organizational stakeholders. One issue of growing concern is environmental responsibility. Organizations may take a legal, market, stakeholder, or activist approach to addressing environmental concerns. Sustainability is a growing movement that emphasizes economic development that meets the needs of today while preserving resources for the future.

Ethical organizations are supported by three pillars: ethical individuals, ethical leadership, and organizational structures and systems, including a code of ethics, ethics committees, chief ethics officers, training programs, and mechanisms to protect whistle-blowers. Ethical and socially responsible companies perform as well as—and often better than—those that are not socially responsible. Social entrepreneurship is burgeoning as new leaders create innovative organizations that blur the boundaries between business and

welfare. These organizations may or may not make a profit, but the overriding goal is to improve society.

Our management challenge at the beginning of the chapter illustrates how difficult issues of ethics and social responsibility can be. Timberland decided to continue its commitment to social causes. In fact, later the same year that Swartz was faced with this dilemma, the company doubled the number of hours it underwrote for employees to do community service. That number has now increased to a full 40-hour week, plus the company offers paid sabbaticals for people to work six months full time in community nonprofits. This commitment to discretionary responsibility has contributed to exceptional loyalty among many employees because people feel good about the work they do. One vice president says she has turned down lucrative offers from other companies because at Timberland she does not feel as if she has to check her values at the door. Timberland consistently ranks in *Fortune* magazine's survey of the 100 Best Companies to Work For, and more than 50 percent of Timberland's employees say the focus on community service is the main reason they work there. However, some people felt that Timberland should have cut out the charity activities to focus on meeting its economic responsibilities when the company hit difficult times. In addition, some felt that the company was failing to meet its ethical responsibilities by spending money on community service when it was laying people off and shipping jobs overseas. Some employees bluntly asked, "Doesn't charity begin at home?" Swartz said he believed, however, that cutting out community service would damage morale and lower commitment without solving the financial problems. Fortunately, Timberland rebounded from its difficulties and continued to grow. However, managers will continue to face challenges concerning how to best meet their responsibilities to all stakeholders.⁹⁷

Discussion Questions

1. Dr. Martin Luther King, Jr., said, "As long as there is poverty in the world, I can never be rich.... As long as diseases are rampant, I can never be healthy.... I can never be what I ought to be until you are what you ought to be." Discuss this quote with respect to the material in this chapter. Would this be true for corporations, too?
2. Environmentalists are trying to pass laws for oil spills that would remove all liability limits for the oil companies. This would punish corporations financially. Is this the best way to influence companies to be socially responsible?
3. Compare and contrast the utilitarian approach with the moral rights approach to ethical decision making. Which do you believe is the best for managers to follow? Why?

4. Imagine yourself in a situation of being encouraged to inflate your expense account. Do you think your choice would be more affected by your individual moral development or by the cultural values of the company for which you worked? Explain.
5. Is it socially responsible for organizations to undertake political activity or join with others in a trade association to influence the government? Discuss.
6. The criteria of corporate social responsibility suggest that economic responsibilities are of the greatest magnitude, followed by legal, ethical, and discretionary responsibilities. Do you agree? Discuss.
7. What are some current ethical issues in the business news? Identify one company that seems to be handling an issue in an ethical and socially responsible manner and one that appears to be unethical or socially irresponsible.
8. Do you believe it is ethical for companies to compile portfolios of personal information on their Web site visitors without informing them? How about for organizations to monitor their employees' use of the Web? Discuss.
9. Which do you think would be more effective for shaping long-term ethical behavior in an organization: a written code of ethics combined with ethics training or strong ethical leadership? Why?
10. Lincoln Electric considers customers and employees to be more important stakeholders than shareholders. Is it appropriate for management to define some stakeholders as more important than others? Should all stakeholders be considered equal?
11. Do you think a social entrepreneur can run a profitable business with a primary goal of improving society? Discuss.

Manager's Workbook

Ethical dilemmas

Write down your responses to the situations below. Your instructor may conduct a discussion about these ethical dilemmas.

1. An employee, whose mother is sick, starts slacking in her work, causing other employees to stay later to get all the tasks done. If you were her boss, what would you do?
2. You see a student cheating during an exam, a test for which you have studied several weeks. That student gets a higher grade than you. What do you do? Would you feel differently about it if he had received a lower grade?
3. Your mother is an executive at a record company. Sales have declined in the last two years, mostly because of music piracy and illegal downloads. You see lots of students downloading songs illegally. You know this affects your mother's income and, ultimately, your inheritance. What do you do?
4. Your group has a difficult assignment, part of which is a paper. One student announces that a friend of his did a similar paper at another university and is willing to let your group copy that paper. What do you do?
5. A friend of yours has found a way to sneak into the local movie theater without paying and invites you along. What do you do?

Manager's Workshop

1. In groups of 4–7 students, discuss the case below, rank ordering the five choices for strategies.
2. As a group, determine which of the ethical approaches (utilitarian, individualism, moral rights, and justice) relate to each of the five choices.
3. Groups report their rankings to the large class and instructor facilitates discussion on ethical frameworks.

Case study

You are the head seismologist of one of the top research institutions in the country. A new machine that you helped develop has determined that a damaging earthquake is imminent in a nearby state in three days. Your new equipment can predict earthquakes with an 80 percent reliability. The area the earthquake is likely to strike has great population density with many bridges and tall buildings, some of the buildings being so-called “projects.”

You reported your findings to the director of your institute, but nothing has been done. You have two days until

the earthquake, and you must decide what to do. Here are your options:

1. You should be careful about your findings. After all, there is a 20 percent chance you are wrong, you could create unnecessary chaos, and your career is at stake.
2. You must immediately inform all of the media. Everyone should know and be able to prepare for the possible disaster.
3. Calculate the costs of damage expected from the quake, in damaged buildings and lost lives. Compare this with the cost of falsely predicting the quake and all the costs associated with the chaos that would result. Compare these two figures and decide which is greater.
4. Look back and see how other earthquake threats have been treated. Was there bias in terms of warning people in richer versus poorer regions? What is the fair things to do in this less affluent area?

SOURCE: Adapted from Mark Mallinger, “Decisive Decision-Making: An exercise using Ethical frameworks,” *Journal of Management Education* 21:3, (August 1997): 411–417.

Management in Practice: Ethical Dilemma

Should We Go Beyond the Law?

Nathan Rosillo stared out his office window at the lazy curves and lush, green, flower-lined banks of the Dutch Valley River. He had grown up near here, and he envisioned the day his children would enjoy the river as he had as a child. But now his own company might make that a risky proposition.

Nathan is a key product developer at Chem-Tech Corporation, an industry leader. Despite its competitive position, Chem-Tech has experienced several quarters of dismal financial performance. Nathan and his team have developed a new lubricant product that the company sees as the turning point in its declining fortunes. Top executives are thrilled they can produce the new product at a significant cost savings because of recent changes in environmental regulations. Regulatory agencies have loosened requirements on reducing and recycling wastes, which means Chem-Tech can now release waste directly into the Dutch Valley River.

Nathan is as eager as anyone to see Chem-Tech survive this economic downturn, but he does not think this is the way to do it. He has expressed his opposition regarding the waste dumping to the plant manager and to his direct supervisor, Martin Feldman. Martin has always supported Nathan, but this time was different. The plant manager, too, turned a deaf ear. "We're meeting government standards," he had said. "It's up to them to protect the water. It's up to us to make a profit and stay in business."

Nathan turned away from the window, his prime office view mocking his inability to protect the river he loved. He knew the manufacturing vice president was visiting the plant next week. Maybe if he talked with her, she would agree that the decision to dump waste materials in the river was ethically and socially irresponsible. But if she did not, he would be skating on thin ice. His supervisor had accused him of not being a team player. Maybe he should just be a passive bystander since the company is not breaking any laws.

What Would You Do?

1. Talk to the manufacturing vice president and emphasize the responsibility Chem-Tech has as an industry leader to set an example. Present her with a recommendation that Chem-Tech participate in voluntary pollution reduction as a marketing tool, positioning itself as the environmentally friendly choice.
2. Mind your own business and do your job. The company is not breaking any laws, and if Chem-Tech's economic situation does not improve, a lot of people will be thrown out of work.
3. Call the local environmental advocacy group and get it to stage a protest of the company.

SOURCE: Adapted from Janet Q. Evans, "What Do You Do: What If Polluting Is Legal?" *Business Ethics* (Fall 2002): 20.

Surf the Net

1. **Ethics Quiz.** The Internet contains many interactive sites where you can learn more about ethical decision making. Visit one of these sites or find one of your own that will allow you to gain further insight about ethical issues.
<http://www.nevada.edu/~pernellj/quiz.html>
<http://confessiononline.com/quiz.asp>
<http://library.humboldt.edu/infoservices/OWLS/OWL8-Test.htm>
<http://www.ethicsandbusiness.org/stylequiz.htm>
<http://www.ai.org/ethics/pubs/newsarticles/Quiz.html>
2. **Transparency International.** Learn more about this organization by going to <http://www.transparency.org> and identifying the following information: (a) locate and read the page titled "TI's Vision, Mission, Values, Approach and Strategy"; (b) locate the page titled "What TI Does"

and familiarize yourself with the initiatives TI has in place to accomplish its mission; and (c) select one initiative from those explained under "What TI Does" and use the links provided to learn more about the initiative that interests you most. Be prepared to discuss your findings in a class discussion.

3. **Internet Legal Issues.** An Internet law library that provides summaries of more than 320 court decisions relating to the law of the Web can be found at <http://www.phillipsnizer.com/internetlib.htm>. Topics include copyright, linking, defamation, e-mail, gambling, and spamming. Select a topic of interest from the more than 60 topics that are linked from the home page, print out the summary of the court decisions related to your topic of interest, and bring your printout to class.

Case for Critical Analysis

Massengill's Department Store

Massengill's Department Store had been a fixture in small and mid-sized cities across the Southeast for 75 years. But for the past couple of decades, the Atlanta-based chain had been going slowly downhill. Once a cutting-edge retailer, Massengill's had come to be known primarily for its dilapidated stores and dowdy clothes. Everyone knew the chain was on the verge of bankruptcy. But that was before Marv Heimler. Heimler had been lured away from his job running a nationwide chain based in Dallas–Fort Worth to rescue Massengill's. And rescue it he had. Massengill's was now the talk of the retail industry, thanks to its soaring sales and accompanying surge in stock price.

Heimler had been offered a generous compensation package that was tied to his performance in leading Massengill's through a rapid turnaround. And, indeed, Heimler realized he had no time to lose if Massengill's was to survive. He came in with an aggressive plan for change that included remodeling shabby stores, cutting overhead costs, and offering modern, trendy merchandise sold by sophisticated, knowledgeable sales associates. "Link selling," in which shoppers enter the store looking for one item but end up leaving with three or four, was an important part of the new strategy. Unfortunately, the new strategy also meant layoffs were inevitable. Massengill's had long been run by old-fashioned, patriarchal managers who had held fast to their no-layoffs policy. However, to save the company meant aggressively slashing costs and investing the savings in remodeling, new merchandise, and training programs. Closing the in-store snack bars and consolidating distribution centers were the first steps, which eliminated about 500 jobs. In addition, many of the long-time salespeople had neither the abilities required for link selling nor a feel for the chic, sophisticated clothing Massengill's was offering. Heimler knew he had to cut out the "deadwood" (a term he was careful to never use in public) to make room for a new breed of modern, energized sales associates.

Layoff notices went out to more than 500 floor supervisors and long-time salespeople on Friday before lunch. Heimler believed that would give people time to clean out their desks and say goodbye to their colleagues before the end of the day. And most of the survivors would have a weekend to process what had happened before returning to work.*

Heimler had expected people to be upset about the layoffs, but the severity of the reaction surprised him. Even the new employees he had brought in seemed to be upset. An article in a recent industry magazine had speculated that

Massengill's success would be short-lived if morale continued to decline. "There's no trust at Massengill's," the article had said. "People feel like senior management isn't honest with its people. They just want to fix up the company fast and mop up the damage later."

Claire Sparkes, his head of human resources, confirmed that the article was on target. "People are really angry," she told him. "They think you should have held meetings to explain what was happening with the company and give people some warning."

"Everybody knew Massengill's was on the verge of financial collapse," Heimler snapped back. "When a new CEO is brought in to turn things around, everybody knows layoffs are coming. Why rub their noses in it? And if I hadn't moved quickly, nobody here would have a job. The whole chain would have gone down the tubes, and instead of 1,000 or so jobs being lost, 5,000 people would have been out of work. How would people have liked that?"

When Sparkes left his office, Heimler evaluated his situation. Massengill's was clearly soaring again. Customers were flocking in, sales and profits were going up, and Heimler was a hero on Wall Street. His compensation package is already worth more than \$1 million, and his contract has been renewed for two more years, with an increased salary and more stock options. He knew he had transformed Massengill's from an outdated chain that catered to older women to a hip, fun place for affluent young customers. Heimler reviewed last quarter's results and saw that sales and profits were still going up. So why does everyone keep telling him morale is going down?

Questions

1. What approach to ethical decision making (utilitarian, individualism, moral rights, or justice) seems to best describe Marv Heimler's turnaround strategy at Massengill's?
2. At what level of moral development would you place Heimler? Why?
3. How could Heimler have handled the layoffs to avoid the problems he is now facing? If you were in his position, what would you do now?

SOURCE: Based on Suzy Wetlaufer, "After the Layoffs, What Next?" *Harvard Business Review* (September–October 1998): 24–42.

*Note: A new federal regulation now requires that employees be given several weeks' notice of intended layoffs.

Biz Flix**Emperor's Club**

William Hundert (Kevin Kline), a professor at Saint Benedict's preparatory school, believes in teaching his students about living a principled life as well as teaching them his beloved classical literature. Hundert's principled ways are challenged, however, by a new student, Sedgewick Bell (Emile Hirsch). Bell's behavior during the 73rd annual Julius Caesar competition causes Hundert to suspect that Bell leads a less than principled life.

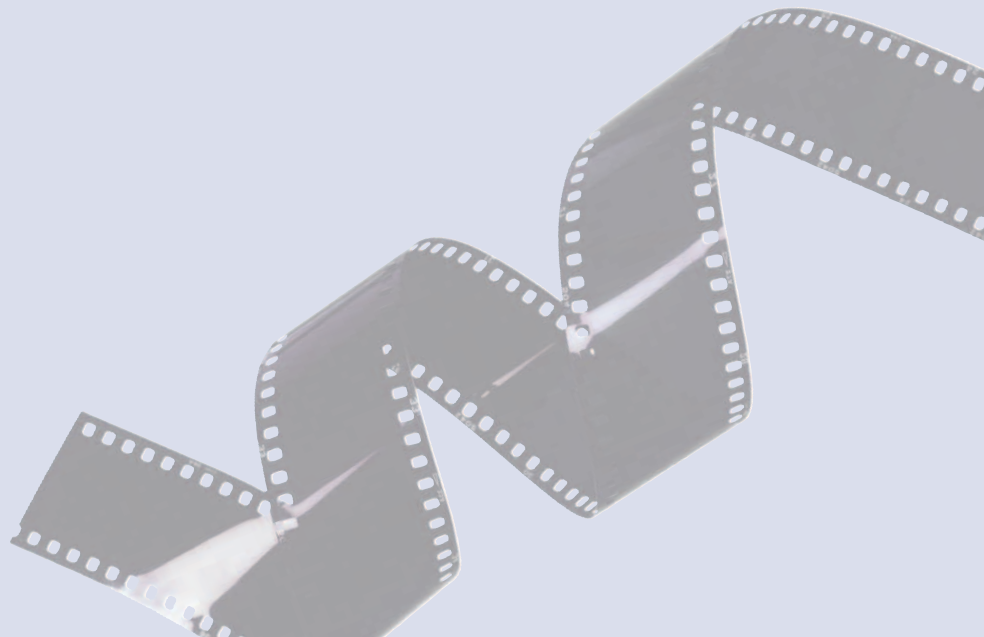
Years later, Hundert is the honored guest of his former student Sedgewick Bell (now played by Joel Gretsch) at Bell's estate. Depaak Mehta (Rahul Khanna), Bell, and Louis Masoudi (Patrick Dempsey) compete in a reenactment of the Julius Caesar competition. Bell wins the competition, but Hundert notices that Bell is wearing an earpiece. Earlier in the film Hundert had suspected that the young Bell also wore

an earpiece during the competition, but Headmaster Woodbridge (Edward Herrmann) had pressed him to ignore his suspicion.

This scene appears at the end of the film. It is an edited portion of the competition reenactment. Bell announced his candidacy for the U.S. Senate just before talking to Hundert in the bathroom. He carefully described his commitment to specific values that he would pursue if elected.

What to Watch for and Ask Yourself

1. Does William Hundert describe a specific type of life that one should lead? If so, what are its elements?
2. Does Sedgewick Bell lead that type of life? Is he committed to any specific ethical view or theory?
3. What consequences or effects do you predict for Sedgewick Bell because of the way he chooses to live his life?



Organic Valley Plants the Seeds of Social Responsibility

MANY ORGANIZATIONS TREAT SOCIAL RESPONSIBILITY AS IF IT were a separate division, the department of good deeds. They support volunteerism among employees, use environmentally friendly packaging, and sponsor special programs in the community. All of these activities are to be commended. But few commercial organizations can claim to be based on the principles of social responsibility. The Organic Valley Cooperative is an exception. Based in Wisconsin, Organic Valley is a cooperative of small farmers whose products are certified to be produced without pesticides, synthetic hormones, or antibiotics, products including organic milk, cheese, butter, spreads, creams, eggs, vegetables, juice, and meat.

Nearly two decades ago, a few farmers who believed in practicing organic agriculture and saving family farms as a value to society got together to form a cooperative. By acting together, these farmers could better control their fate. They could control supply, negotiate with larger customers, and reach more consumers who wanted their products. And they could set their own milk prices. Instead of being forced to accept prices subject to wild fluctuations in the open marketplace, these farmers began to set their own. This practice may be the single most important factor in the ability of family farms to survive. In one recent year, the milk price paid to Organic Valley farmers was 60 percent higher than the price paid to conventional dairy farmers. Organic Valley has received criticism for this practice, particularly from its creditors. But the cooperative holds firm. "Lowering the milk price would have been as easy as falling off a log," argues Organic Valley's CEO George Siemon. "But one of our objectives is to pay our farmers a good price.... We have a pay program the farmers expect us to deliver on. These relationships are the most important thing."

Today, Organic Valley is being called the most successful organic cooperative in the world. The cooperative has 630 members farming 100,000 acres in 16 states, with a waiting list. Sales are hitting upward of \$200 million per year and growing. Member farmers are the cooperative's major stakeholders. With assistance from Organic Valley employees, the farmers govern the cooperative by serving on the board and executive committees. Organic Valley's structure is designed so it will be able to sustain itself from one generation to the next, ensuring the survival of family farms and sustainable, organic agriculture.

Sweet Ridge Organic Dairy is one of the cooperative's farms, operated by Paul Deutsch in Westby, Wisconsin. Deutsch owns 26 cows that

are milked twice a day and allowed to graze over pastureland the rest of the time, unlike cows in many larger, conventional dairy farms, which are kept in stalls 24 hours a day and may be given hormones or antibiotics. Running an organic dairy farm costs more, where in addition to grass the cows are fed organic corn, alfalfa, and other grains, and the cows need more grazing land. But Deutsch is not spending money on chemicals or vet bills. He estimates that he makes about 30 percent profit each year because consumers are happy to pay more for products they know are more healthful for themselves and their families. "Many parents have read the *Consumer Reports* studies and the National Academy of Science reports and know that organic for their kids is like seat belts in a car," notes Theresa Marquez, Organic Valley's director of sales and marketing. "The organic category has been growing steadily at 20 percent, and organic milk, with 27+ percent annual growth, is driving the growth of the category. The implementation of the National Organic Program in the United States.... further established the organic market as one that is here to stay. Consumers want organic."

Organic Valley has helped the economies of several rural areas. When a large federal dam project in southwestern Wisconsin was cancelled after displacing more than 140 local farmers from their land, many lost their livelihoods. As Organic Valley became established, it created employment opportunities—on the farms and in the cooperative offices—for hundreds of residents in the area. "Going organic saved our farm," says cooperative farmer Mike Gehl, whose family has operated a Wisconsin farm for 154 years and five generations. Gehl and others like him can look forward to the next generation of farming.

Questions

1. In addition to the farmers, who are Organic Valley's other stakeholders?
2. Where does Organic Valley fit in the *shades of green* illustration in Exhibit 4.6? Give reasons for your answer.
3. Describe at least one ethical challenge that Organic Valley may face during turbulent times.

SOURCES: Company Web site, accessed at <http://www.organicvalley.coop.com>, on August 2, 2004; Judy Ettenhofer, "Organic Valley a Big Success," *The Capital Times* (July 29, 2004): <http://www.madison.com>; and "Organic Valley Posts Record Level Pay Price to Farmers," *OFARM* (December 30, 2003): Organic Valley press kit at <http://www.ofarm.org>.