Ethics and Social Responsibility

CHAPTER 4

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Chapter Outline

After reading this chapter, you will be able to:

- Define business ethics and explain its importance to management.
- Detect some of the ethical issues that may arise in management.
- Specify how personal moral philosophies, organizational relationships, and opportunity influence decision making in management.
- Examine how managers can try to foster ethical behavior.
- Define social responsibility and discuss its relevance to management.
- Debate an organization's social responsibilities to owners, investors, employees, and consumers, as well as to the environment and the community.
- Determine the ethical issues confronting a hypothetical business.

INSIDE MANAGEMENT

A Lax Approach Led to Credit Suisse's Scandals

Credit Suisse Group AG, a global investment bank and financial services company founded in Switzerland, has a zero-tolerance policy for unethical decision making. After a series of scandals, the company brought in chairman Antonio Horta-Osorio to right the ship and fix the company's organizational culture. The company made an unexpected move when it ousted Horta-Osorio. The banker breached the company's COVID-19 safety protocols in Switzerland and the United Kingdom, failing to lead by example.

Horta-Osorio was supposed to lead Credit Suisse on the road to recovery after several ethical scandals. In one case, the company defrauded investors over a loan that was supposed to pay for tuna fishing ships in Mozambique, a country in Africa. Instead, much of the loan was used to pay bribes and kickbacks that benefited foreign government officials and Credit Suisse bankers. Credit Suisse was aware that the numbers related to the loan did not add up but did not disclose this knowledge to investors.

Credit Suisse lost $5.5 billion when Archegos Capital Management, a U.S.-based asset management company, defaulted. Critics say Credit Suisse management focused too much on maximizing short-term profits and failed to address irresponsible risk-taking. In another incident, Credit Suisse sold billions of dollars of Greensill Capital debt to investors, telling investors that the high-yield notes were low risk; however, the financial services company lost insurance coverage for the debt issued against its loans to companies.

It is evident that irresponsible decision making was rampant at Credit Suisse. Another scandal was revealed in which Credit Suisse's CEO was discovered to have hired private detectives to spy on a former employee. High-level management downplayed the spying incident and misled Switzerland's financial regulator. It was later uncovered that the company planned and executed many spying operations.

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Credit Suisse employs more than 50,000 workers.

Axel Lehmann, who replaced Horta-Osorio as chair of the board, said Credit Suisse, as a whole, failed to anticipate risks. He believed the poor ethical decision making was not attributable to individual decision makers but rather to management's lax attitude toward risk. Credit Suisse has set out to address its corporate culture that fueled ethical misconduct disasters. Chair Lehmann must now strengthen Credit Suisse's compliance, monitor risk-taking, and implement new controls.[1]

Introduction

Ethics programs and an ethical culture can drive integrity in all management activities. Without acceptable conduct, a firm will lose the support of stakeholders and even face sanctions from regulatory authorities, as seen with Credit Suisse. This chapter addresses ethics and social responsibility, two of the most important areas in establishing management trust and respect. During the first few decades of the twenty-first century, scandals at corporations such as Wirecard, Luckin Coffee, Volkswagen, and Wells Fargo were associated with ethics and social responsibility failures.

In the first half of this chapter, we explore the role of ethics in management decision making. First, we define business ethics and explain why it is important to understand the role of ethics in management. Next, we explore a number of ethical issues to help you recognize such issues when they arise, and we discuss the process through which individuals make ethical decisions. Finally, we look at steps managers can take to improve ethical behavior in their organizations. The second half of the chapter focuses on social responsibility. First, we describe the nature of social responsibility and its evolution. Next, we explore some important social responsibility issues and the ways companies have responded to them. Finally, we discuss how organizations may manage their operations to fulfill their social responsibilities, including conducting social audits.

What Is Business Ethics?

Business ethics refers to principles, values, and norms that define acceptable behavior in business. Stakeholders, including employees, customers, government regulators, special interest groups, communities, competitors, and an individual's personal morals and values determine what acceptable behavior in business is. For example, we generally feel that ethical managers strive for success while being fair, just, transparent, and trustworthy.

business ethics: Principles, values, and norms that define acceptable behavior in business.

This chapter does not prescribe a particular philosophy or process as the best or most ethical; it does not tell you how to judge the ethics of others. It will help you detect ethical issues and see how decisions are made within individual work groups as well as within the organization as a whole. Understanding how people make ethical decisions should help you improve your own ethical performance. Although we do not tell you what you ought to do, others—your superiors, coworkers, and family—will make judgments about the ethics of your actions and decisions. Learning how to recognize and resolve ethical issues is an important step in evaluating ethical decisions in management.

Why Is Ethics Important in Management?

In Chapter 1, we said that making decisions is an important aspect of management. Ethical considerations exist in nearly all management decisions. The most basic ethical concerns have been codified as laws and regulations that encourage conformity to society's values and attitudes. At a minimum, managers are expected to obey these laws and regulations. Most legal issues arise as incorrect ethical choices that society deems unacceptable. However, all actions deemed unethical by society are not necessarily illegal, and both legal and ethical concerns change over time.

You have only to read the *Wall Street Journal* or *USA Today* to see how truly difficult it is to deal with legal and ethical issues. Wirecard collapsed after a series of corrupt business practices, Luckin Coffee agreed to pay $180 million to resolve charges of accounting fraud, Volkswagen paid billions in fines in the United States for attempts to cheat on emissions requirements, and Wells Fargo opened millions of accounts without customer knowledge—all of these are ethical issues and attest to the difficulty in detecting and determining whether an action has violated a legal or ethical standard. Additionally, there is often a fine line between ethics and laws, and just because something is technically legal does not necessarily mean that it is ethical.

It is important to recognize that business ethics goes beyond legal issues; ethical decisions foster trust among individuals and in business relationships. Unethical decisions destroy trust and make the continuation of business difficult, if not impossible.[2] If you were to discover that a manager had misled you about company benefits when you were hired, for example, your trust and confidence in the company would probably diminish. If you learned that a colleague had lied to you about something, you would probably not trust or rely on that person in the future. From another perspective, mistakes may be unintended, or events may alter a manager's intent or commitments. There may be miscommunication concerning promises in some cases. Therefore, business ethics involves many gray areas or borderline decisions about what is ethical or unethical. For example, there may be debate about what constitutes abusive behavior.

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Business ethics is often referred to as maintaining and managing organizational integrity.

Well-publicized incidents of unethical activity strengthen the public's perception that ethical standards in business need to be raised. For example, the risky lending practices of companies

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Many companies believe that their ethical conduct contributes significantly to their overall profitability.

that helped lead to the Great Recession prompted the U.S. government to establish widespread reform for the financial industry, including the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In another more generic example, a plant that closes in order to save costs may make sense from a business standpoint, but the workers will feel quite differently. Fitness technology company Peloton scrapped plans to build a new factory, shut down its facility in Taiwan, and laid off 2,800 employees to cut spending and improve profitability.[3] Workers may question the ethics of a plant-closing decision. Often, questions that start as ethical conflicts turn into legal disputes when cooperative conflict resolution cannot be accomplished. On the other hand, companies sometimes take aggressive actions to enforce their own ethical standards. Such examples support the notion that most decisions can be judged right or wrong, ethical or unethical.

Although they are often not well publicized, there are many ethical firms. For example, Eaton, Patagonia, and 3M get high marks for ethical conduct and social responsibility. Ethisphere Institute examines the profitability of the "World's Most Ethical Companies." According to the institute's index, the World's Most Ethical Companies outperform a comparable index of large-cap companies by more than 24 percent.

There is a genuine human concern that employees sense and appreciate. Indeed, most organizations and managers do try to make ethical decisions; however, it is the unethical decisions that are publicized and result in public outcries for change.

Recognizing Ethical Issues in Management

ethical issue: An identifiable problem, situation, or opportunity that requires a person or organization to choose among several actions that may be evaluated as ethical or unethical.

Learning to recognize ethical issues is the most important step in understanding ethics in management. An **ethical issue** is an identifiable problem, situation, or opportunity that requires a person or organization to choose among several actions that may be evaluated as ethical or unethical. The "line" between an issue and an ethical issue is the point at which accepted rules no longer serve, and the decision maker is faced with the responsibility of weighing moral rules and making a choice. In management, the decision often requires weighing monetary profit or personal interests against what the individual, work group, or organization considers honest and fair.

A good way to judge the ethics of a decision is to look at the situation from several viewpoints: Should a manager pressure employees to lower product quality in ways the customer cannot detect in order to reduce costs? Should an engineer agree to divulge a former employer's trade secrets to get a better job with a competitor? Should a personnel manager omit facts about an employee's poor safety record to help the employee find a new job? What if a manager fails to use renewable energy, even if it stands to increase long-term profits for the company? Such questions require the decision maker to calculate the ethics of their choice.


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All businesses face ethical risks in their decision making.

Many business issues may seem straightforward and easy to resolve, but in reality, a person often needs several years of experience in business to understand what is acceptable or ethical. Many acceptable behaviors in your private life may not be acceptable in business. For example, when does offering a gift—such as season basketball tickets—to a business associate become a bribe rather than just public relations? Obviously, there are no easy answers to such a question. But the size of the transaction, the history of personal relationships within the particular company, as well as many other factors, may determine whether others will judge an action as right or wrong. If you give your basketball tickets to a friend with whom there is no business relationship, the ethical issue vanishes.

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An example of a conflict of interest is accepting or paying a bribe.

Managers directly influence the ethical issues within an organization because they guide employees and direct the organization's activities. They should be especially concerned about ethical issues related to their organization's impact on the environment, the firm's ethical standards, plant closings and layoffs, employee discipline and benefits, discrimination, health and safety, privacy, drug and alcohol abuse in the workplace, and the achievement of organizational objectives in an efficient and ethical manner.

Ethics is also related to the culture in which a business operates. In the United States, for example, it would be inappropriate for a businessperson to bring an expensive gift to a prospective client on their first meeting because the gift could be viewed as a bribe. In Japan, however, it may be considered impolite not to bring a gift. In Mexico, a small payment called *la mordida* (the "bite") may be considered necessary for doing business. Experience with the culture in which a business operates is critical to understanding what is ethical or unethical. Understandably, there is considerable debate over whose ethics should apply in international business. U.S. managers need to respect other cultures, establish standards, and avoid violating U.S. or foreign laws when doing business globally.

To help you understand ethical issues that perplex managers today, we will explore some ethical issues that may affect management decisions. Obviously, it is not possible to discuss every issue that may arise, but a discussion of a few can help you recognize the ethical decisions and issues that managers have to deal with daily.

Ethical Issues in Management

As stated earlier, a decision becomes an ethical issue when accepted rules no longer apply and the decision maker must use their own moral principles and standards to decide what is right or wrong. Managers have an obligation to ensure that their ethical decisions are consistent with company values, codes of ethics, and policies—as well as community and legal standards. The following represent some examples of ethical issues from different management areas.

Organizational Relationships

Relationships with subordinates, coworkers, and superiors may result in ethical issues such as maintaining confidentiality in personal relationships; meeting obligations, responsibilities, and mutual agreements; and avoiding undue pressure that may force others to behave unethically. Today, the most commonly reported types of misconduct in the workplace, according to the Ethics & Compliance Initiative, are favoritism, management lying to employees, and conflicts of interest. Ethical issues arise when employees are asked to lie to customers and other employees about the quality of a product, as when a supermarket employee is told to tell customers that the seafood is fresh when, in fact, it was previously frozen. A manager may ask employees to do things that are in conflict with their personal ethics, or the organization may provide only vague or lax supervision on ethical issues, providing the opportunity for unethical behavior. Managers who offer no ethical direction to employees create many opportunities for manipulation, dishonesty, and conflicts of interest.

BUSINESS DILEMMA

You're the Manager . . . What Would You Do?

THE COMPANY: Supreme Deluxe
YOUR POSITION: Chief Marketing Officer
THE PLACE: Los Angeles, California

Supreme Deluxe began manufacturing cosmetics in Los Angeles in 2012. Constance, the CEO, previously worked at a small mineral makeup company and learned the ins and outs of the industry. Constance felt the makeup industry was going the way of fast fashion, with brands introducing new, trendy products at an extremely rapid rate. Not to mention, she felt that most makeup products were made with cheap pigments and fillers and came in excessively large sizes, resulting in poor-quality products and excessive waste. She saw an opportunity to create a premium line of miniature makeup made exclusively in the United States.

When the company launched, the consumer response was overwhelming. People loved the small product sizes and raved about the product quality. Publicity for the company came quickly and easily as people were delighted with and supportive of the American cosmetics company across social media. Prominent social media influencers on TikTok and YouTube shared thousands of positive reviews. In its first year, Supreme Deluxe brought in more than $600 million in annual revenue, beating out major players in the industry.

The success of the miniature makeup line brought on serious competition. Mass cosmetics brands mimicked the company's miniature lip glosses and lipsticks within six months, although they certainly did not deliver on quality. Eventually, Constance hired a chief marketing officer, Henry, to oversee the company's product portfolio and marketing activities to help the company grow and fend off the copycats. Henry's background in product development and brand management made him a good fit, Constance thought.

After several months of becoming acquainted with the Supreme Deluxe products and the company's goals, Henry presented Constance with a few ideas to improve profitability. He identified several ingredients that could be replaced or eliminated from the company's formulas, which would significantly reduce raw material costs. Not to mention, all of the replacement

Supreme Deluxe faces ethical issues related to product quality.

ingredients were made by American manufacturers, decreasing Supreme Deluxe's reliance on international suppliers and increasing its "made in America" promise. Constance worried the cheaper ingredients would result in product-quality issues, but Henry assured her that customers would not be able to detect the lower product quality.

Constance did not want to compromise on quality, but Henry's proposal was tempting. After testing reformulated versions of her products, she agreed that the changes made were undetectable in the finished goods. If they moved forward, the company would save a significant amount of money, allowing it to invest more in environmentally friendly packaging and its consumer recycling program. Henry said the best way to move forward was to make the changes without an accompanying official announcement. He believed announcing the change would be sure to invite criticism, and he doubted anyone would notice the ingredient changes otherwise.

QUESTIONS

1. Critique Henry's proposal.
2. What are the potential ethical issues associated with this plan?
3. How would you proceed?

Operations and Communications

Many opportunities for unethical activity exist in the area of operations and communications. At first, it could be just an ethical issue, but when employees cover up and destroy records, it may turn into an illegal activity. The now-defunct accounting firm Arthur Andersen faced this problem when it was accused of destroying documents related to its involvement with the Enron scandal. Many companies have gotten into ethical trouble by covering up safety defects or by not being honest about the true quality of products. An ethical issue exists when a company is not truthful about important information related to product quality. Firms that identify a product-safety issue have a duty to resolve the issue. For instance, Banana Boat voluntarily recalled select sunscreen products after trace levels of a carcinogen were detected.

Sexual harassment has emerged as a major ethical issue in the workplace. Some high-ranking executives have been accused of engaging in inappropriate relationships and taking advantage of their positions of power to obtain sexual favors. McDonald's sued and fired its then-CEO Steve Easterbrook after he lied about multiple sexual relationships with employees. Firms need to assess risk but continue to provide equal opportunity in the workplace.

Employee Relations

The area of human resources management is a minefield of ethical issues. The process of acquiring, developing, and compensating people to fill the organization's human resources needs generates many ethical issues. For example, testing procedures used in hiring personnel may violate an individual's rights, or the artificial intelligence software that filters résumés may exhibit racial bias. A growing number of states limit employers' access to the private social media accounts of employees and job applicants. The disclosure of personnel records and personality tests represents an ethical issue when it violates workers' privacy. Performance appraisals are another ethical issue if appraisals are based on favoritism and political opportunism. Decisions regarding promotions, transfers, separations, and financial compensation that are not based on objective criteria will provide opportunities for conflicts. Many firms have been accused of discrimination in hiring and promotions. Firms such as Walmart, Home Depot, and Costco have all been accused in class-action lawsuits of gender discrimination in promotions and hiring.

Ethical issues related to discrimination and prejudice affect business activities at many levels. Discrimination based on race, sex, age, or other identifiable characteristics is an ethical issue and can become a legal statistic when managers or company policy fails to control or prevent discrimination. Riot Games paid $100 million in a gender discrimination case in which the video game developer was accused of widespread sexism and harassment.[4]

Strategies that management uses to develop human relations programs can also create ethical concerns. Strategies for motivating employees, such as methods of reward and punishment, can lead to unethical behavior. For example, if managers reward employees for achieving results without concern for how those results are achieved, they may send the wrong message to employees about what activities are acceptable and even encourage unethical actions to achieve results. Wells Fargo employees who faced aggressive sales goals opened millions of fake accounts.[5] Top-performing salespersons are not punished as often as low-performing salespersons when found guilty of misconduct.

Making Decisions about Ethical Issues

Recognizing specific ethical issues can be difficult in practice. Whether a decision maker recognizes an issue as an ethical one is often determined by the characteristics of the issue itself. Table 4.1 provides some facts about organizational misconduct in the United States. Managers tend to be more concerned about issues that affect those close to them, as well as issues that have immediate rather than long-term consequences. Thus, the perceived intensity of an ethical issue may vary substantially, with only a few issues receiving scrutiny and many issues receiving less attention.[6]

While open discussion of ethical issues does not eliminate ethical problems, it does promote both trust and learning in an organization.[7] When people feel that they cannot discuss what they are doing with their coworkers or superiors, an ethical issue may exist. Once a person has recognized an ethical issue and can openly discuss it with others, the ethical decision-making process has begun. Table 4.2 lists some questions you may want to ask yourself and others when trying to determine whether an action is ethical.

TABLE 4.1 Observed Organizational Misconduct in the United States

Type of Misconduct	Observation Rate
Favoritism	35%
Management lying to employees	25%
Conflicts of interest	23%
Improper hiring practices	22%
Abusive behavior	22%
Health violations	22%

Source: Ethics Resource Center, *Global Business Ethics Survey: The State of Ethics & Compliance in the Workplace* (Vienna, VA: Ethics Resource Center, 2021), 16.

The Ethical Decision-Making Process

It is difficult for some people to believe that an organization can exert a strong influence on ethical behavior. In our society, we want to believe that we, as individuals, control our own destiny. However, teams and work groups, not individuals, often make the ethical decisions within the organization. Most new employees in highly bureaucratic organizations have almost no input into how things will be done in terms of basic operating rules and procedures. Employees may be taught management tactics and the way to resolve problems. Although many personal ethics issues may seem straightforward and easy to resolve, most managers make ethical decisions within the context of their organizations. Employees often accept the recommendations of accountants, lawyers, and experienced managers if they are concerned about an ethical decision.

To better understand the significance of ethics in management decisions, it is helpful to examine the factors that influence how a person makes ethical decisions: an individual's personal values, organizational factors, and opportunity (Figure 4.1).

The Role of Individual Factors in Ethical Behavior

individual values: Sets of principles that describe what a person believes are the right ways to behave; also known as *moral philosophies*.

utilitarianism: A philosophy where believers seek the greatest satisfaction for the largest number of individuals

Individual values, also known as moral philosophies, are sets of principles that describe what a person believes are the right ways to behave. People learn these principles by interacting with family members and social groups and in formal education. Individuals may be guided by different values, however. Each moral philosophy has its own concept of what is ethical and the proper rules for behavior. This, in turn, influences what a person identifies as ethical and how strongly they feel about those issues. Moral philosophies can be broken into two categories: utilitarianism and deontology.

Believers in **utilitarianism** seek the greatest satisfaction for the largest number of individuals. Utilitarians evaluate the ethics of an action or decision on the basis of its con-

TABLE 4.2 Questions to Consider Whether an Action Is Ethical

- Does the conduct comply with your organization's code of ethics or policies?
- How do other people in the organization feel about the action? Would they approve of your doing it?
- Are there any industry trade groups that provide guidelines or codes of conduct that address this issue?
- Will your decision or action withstand open discussion with coworkers and managers and survive untarnished?
- How does the decision align with your personal beliefs and values?

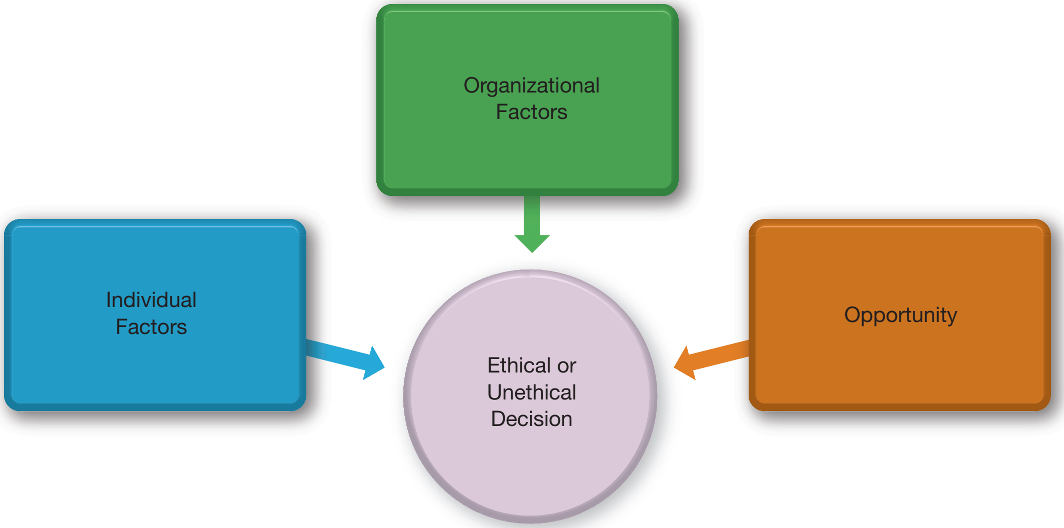

FIGURE 4.1
Factors Influencing Behavior

sequences for all affected persons. When confronted with an ethical issue, the utilitarian manager weighs the costs and benefits of the consequences of all possible alternatives, then chooses the one that benefits the most people. Employees may bend the rules if most stakeholders will benefit. For example, a CEO of a struggling company might consider making misleading statements that the firm is doing well. The CEO might honestly believe that reassuring investors and attracting new ones will help the company rebound, allowing employees to keep their jobs. On the other hand, a truly utilitarian philosophy would also evaluate the impact this misrepresentation would have on investors. If the company does go out of business, investors could lose millions. In addition, the CEO should also consider what might happen if caught by regulatory authorities. In such a case, the CEO could face serious legal penalties. A utilitarian CEO would take all these possibilities into account and choose the solution that they believe would benefit the most stakeholders.

In contrast, **deontology** focuses on human rights and values and on the intentions associated with a particular behavior. Deontologists judge an action by whether it infringes on individual rights or universal principles such as the Golden Rule, equality, or justice. In other words, utilitarians are more concerned with the end results, whereas deontologists are concerned with the means to get those results. In business, deontology is consistent with the idea that basic principles of acceptable conduct exist. A manager adopting this philosophy believes that they have a moral obligation to safeguard workers' health and safety and to make decisions that support individual rights without regard for the cost. A manager's decision to avoid discrimination in hiring is based on formalistic principles of equality. The manager's decision not to lie would be based on the principle that lying is wrong and not acceptable. Sometimes both deontology and utilitarianism influence the same decision.

deontology: Focuses on human rights and values and on the intentions associated with a particular behavior.

Organizational Factors

Successful managers achieve their company's objectives in part by influencing their employees' behavior. If the pressure to produce a result—such as increasing profits—is especially great, the pressure to perform is also strong. How an employee achieves goals is shaped by the ethical climate of the organizational policies set by supervisors and the conduct of coworkers.

The greater a person's exposure to unethical behavior, the greater the likelihood that person will act unethically. Moreover, employees' perceptions of the ethics of their coworkers and managers are often a stronger predictor of behavior than what employees personally believe to be right or wrong.[8] For example, an employee who sees her coworkers regularly take home company supplies for personal use may engage in the same

Source: Chayantorn Tongmorn/Shutterstock

Managers have a significant impact on employees' conduct.

behavior even if she personally believes it is wrong. Thus, the overall ethical climate in an organization sets the standards for employee conduct. Managers should keep this in mind.

The authority of an employee's superiors also affects ethical behavior. Powerful managers can affect employees' daily activities and directly influence behavior by implementing the company's ethical culture. If managers act unethically, employees may feel that such activities are acceptable within that organization; if a manager asks an employee to do something unethical, the employee may feel pressured to perform the activity even though he feels it is wrong. Lab director Dr. Adam Rosendorff of Theranos, a health care technology company, was pressured by executives to lie to doctors about the company's products. Former employees have said the company—which infamously defrauded investors—had a culture of fear and isolation.[9] Consequently, the role of management is extremely important in fostering ethical behavior in an organization.

Managers who do not view ethics as important may encourage employees to act contrary to their personal ethics. Some employees succumb to organizational pressures rather than following their own values, rationalizing their decisions by maintaining that they are simply "following orders." However, this rationalization has several weaknesses:

1. People who work in organizations can never fully abdicate their personal, ethical responsibility when making business decisions. Claiming to be an agent of the corporation is not accepted as a legal excuse and is even less defensible from an ethical perspective.
2. It is difficult to determine what is in the best interest of the organization. Short-term profits earned through unethical behavior may not be in the long-term interest of the company.
3. A person in a business has a responsibility to parties other than the organization.
4. Stakeholders must be considered when making ethical decisions.[10]

For these reasons, this rationalization does not often hold up in a court of law.

Because employees' perceptions of the ethics of their coworkers influence their behavior, it should not be surprising that work groups within an organization have a strong impact on ethical behavior. In fact, work groups, or the perceived ethicality of work groups, represent the most important factor affecting daily ethical decisions. The levels of conflict between employees may directly or indirectly influence the amount of unethical behavior within an organization.[11] The more conflict that exists within an organization, the lower the perceptions of the ethicality of the work group. Because coworkers are so important in accomplishing daily business activities, it is important to support the ethics of the work group. If managers can provide direction and encourage ethical decision making, then the work group becomes a force to help the individuals make better ethical decisions. When managers allow greater participation with regard to the design and implementation of projects, conflict within the work groups is reduced, and ethical behavior may improve.

The Role of Opportunity

Opportunity refers to conditions that limit unfavorable behavior and/or reward favorable behavior. These conditions could create the opportunity for an employee to act ethically or unethically. A person who is rewarded or is not punished for unethical behavior is likely to repeat the behavior; a person who receives no reward or is punished for behaving unethically probably will not repeat the action. For example, if an employee is caught violating the company's ethical standards, as spelled out in its code of ethics, the employee may be reprimanded, placed on probation, suspended, or even fired. These disciplinary procedures send a message to company employees that unethical or illegal behavior will not be tolerated and make it less likely that an employee will repeat the action that resulted in punishment.

The greater the reward or the smaller the punishment for unethical behavior, the greater the likelihood that unethical behavior will recur. Indeed, the opportunity to engage in unethical behavior has been found to be a better predictor of unethical behavior than one's personal beliefs or the beliefs of peers.[12]

Source: Brian A. Jackson/Shutterstock

Without the proper guidance and training, employees can engage in behaviors that personally benefit them and violate organizational legal and ethical guidance.

Companies can mitigate the negative effects of opportunity within an organization by adopting one of two control systems: values orientation or compliance orientation. A *values orientation* relies on shared values between the company and the employees. These values tend to be ideals and can bring cohesiveness to the organization if all members subscribe to the same values. While consequences of unethical behavior are present in this system, the opportunity for unethical behavior may exist to varying degrees as ideals can be interpreted differently among employees.

A *compliance orientation* requires that employees learn and pledge to a specific type of conduct. It uses language that teaches employees the rules and consequences for noncompliance. Setting clear boundaries for acceptable and unacceptable behavior and assigning consequences to these behaviors will aid the employees in their decision making. When employees understand that their behaviors will be met with consequences, either good or bad, there is little room for ambiguous personal interpretation of how they should act within the company. Reducing the employees' need to interpret a situation eliminates the opportunity for unethical behavior and strengthens the opportunity for ethical behavior.

Both control systems serve the same purpose, to reduce the opportunity for unethical behavior, and the decision as to which one to adopt will depend on a firm's leadership, culture, and employees. However, a values orientation sharpens employees' abilities to reason ethically, making them more aware of ethical situations in the workplace, and make better decisions. The compliance orientation, while effective, focuses the employee's attention more on the consequences of not behaving ethically. This focus is not as likely to change an organization's ethical culture.[13]

Ethics and Compliance Programs

Ethics and compliance programs are designed to support ethical decision making and develop an ethical culture. An ethical culture depends on the values, norms, and behaviors that are instilled within the organization. Ethics programs normally focus on values that provide more abstract core ideals such as accountability and teamwork. Compliance identifies ethical issues and develops rules that require employees to adhere to mandatory conduct. For example, a company may have a rule that an employee cannot accept a gift or promotional item from a supplier with a value of more than $25. Understanding how people choose their standards of ethics and what prompts a person to engage in unethical behavior can help improve ethical behavior in organizations.

Most organizations have adopted an ethics program to avoid misconduct and help employees reach a consensus on appropriate action. Leadership is important in developing an ethics program, with top executives and the board of directors providing a system to help the organization deal with ethical issues. Establishing and enforcing ethical standards and policies can help reduce unethical behavior by prescribing which activities are acceptable and which are not and by removing the opportunity to act unethically. For instance, if high-level management does not support the program or ensure that employees are adhering to the company's ethical policies, then the program will fail to encourage ethical behavior.

TABLE 4.3 Seven Steps for Effective Ethics and Compliance Programs

1. Standards and procedures, such as codes of ethics, that are reasonably capable of detecting and preventing misconduct.
2. High-level personnel who are responsible for an ethics and compliance program.
3. No substantial discretionary authority is given to individuals with a propensity for misconduct.
4. Standards and procedures are communicated effectively via ethics training programs.
5. Systems to monitor, audit, and report misconduct.
6. Consistent enforcement of standards, codes, and punishment.
7. Continuous improvement of the ethics and compliance program.

Source: Adapted from U.S. Sentencing Commission, *Federal Sentencing Guidelines Manual*, effective November 1, 2004 (St. Paul, MN: West, 2008).

Most organizations have accepted some standard components of an effective ethics program. These steps are based on best practices and the recommendation of the Federal Sentencing Guidelines for Organizations that use these requirements in assessing the due diligence of the company if there is misconduct. Table 4.3 highlights seven minimum requirements for a successful ethics and compliance program.

It is difficult for employees to determine what acceptable behavior is if a company does not have uniform policies and standards. These standards should be based on the assessment of risk and the identification of key ethical issues. Without such policies and standards, employees are likely to base decisions on how peers and superiors behave. Professional **codes of ethics** are formalized rules and standards that describe and delineate what the organization expects of its employees. For instance, Nike has formal ethics codes for both its employees and its suppliers that it expects them to follow. Establishing codes of ethics is the first step in developing an effective ethics and compliance program.

codes of ethics: Formalized rules and standards that describe and delineate what the organization expects of its employees.

Codes of ethics and ethics-related corporate policy foster appropriate behavior by limiting the opportunity to behave unethically through the use of punishments for violations

Source: Rawpixel.com/Shutterstock

Many companies engage in ethics training with their employees to make them aware of the ethical issues and how the company would like for them to respond when facing uncertainty.

of the rules and standards. The enforcement of such codes and policies through rewards and punishments increases the acceptance of ethical standards by employees.

In order for codes of ethics to be effective, high-level managers, including the board of directors, CEO, and chief ethics officer, should proactively support the ethics and compliance program. Because employees look to management for direction, they have the opportunity to model acceptable standards and practices for employees. An *ethics officer* is responsible for managing the organization's ethics and compliance program. The ethics officer is responsible for overseeing ethics training, assessing ethical risks within the organization, monitoring the firm's ethical conduct, establishing confidential reporting mechanisms that employees can use to report concerns, ensuring compliance with all laws and regulations, disciplining those caught violating ethical rules and policies, and updating the code or revising the program whenever needed, among other duties. It is imperative that managers in the organization work together to monitor and enforce ethical decision making.

High-level managers and the board of directors must also make sure that those put in charge of the ethics program do not have a propensity for misconduct. You would not expect the captain of a large ocean liner to have a previous record of alcohol misuse while on duty. Instead, you expect the captain to obey appropriate policies and regulations, avoid misconduct, and have the knowledge needed to perform their duties effectively. The same applies to those in charge of ethics programs. It is important to avoid putting someone in authority of an ethics and compliance program who has had problems with misconduct in the past. Best practices and recommendations from government agencies claim that the ethics officer should be able to report directly to the board of directors.

Communication of codes, standards, and requirements through training programs is essential. While codes of ethics are important in communicating the firm's ethical standards, they are not sufficient on their own. Too often, companies believe an ethics code will be enough to familiarize employees with ethical decision making. However, as with anything in life, ethics should be practiced to be learned. Ethics training programs are necessary to familiarize employees with the types of situations they may encounter in their jobs. A strong training program also alerts employees to the company's commitment to ethical conduct and allows them to ask more detailed questions about ethical procedures. Training programs can involve a wide range of teaching methods, including case studies, behavioral simulations, instructional videos, computer-based instruction, ethics games, and more.

Systems are needed to monitor the program's effectiveness as well as report misconduct. Organizations must also continually review and monitor the firm's ethical culture. One effective way of monitoring the effectiveness of a firm's ethics and compliance program is by conducting an ethics audit. An **ethics audit** is a comprehensive evaluation of a firm's ethics and compliance program and its ethical decisions used to determine whether the program is effective. Ethics audits can help managers uncover hidden ethical risks as well as identify areas for improvement. Managers might also want to provide questionnaires to understand employee perceptions of the firm's ethical culture. Often employees have a better idea of the inner workings of the organization, so getting them involved in the ethics program is imperative.

ethics audit: A comprehensive evaluation of a firm's ethics and compliance program and its ethical decisions used to determine whether the program is effective.

Employees are also more likely to witness misconduct at different levels of the organization. In order to discover and address ethical issues, managers should provide mechanisms that employees can use to report misconduct or concerns. **Whistle-blowing** occurs when employees expose an employer's wrongdoing. This might occur internally or externally. Internal reporting is when an employee reports questionable behavior to a manager or through a hotline. Research suggests that the more ethical the company's culture, the more likely employees are to report concerns internally to managers or to use a hotline.[14] Companies must develop open communication and trust in order to nurture ethical decisions.

whistle-blowing: Occurs when employees expose an employer's wrongdoing. This might occur internally or externally.

It is difficult without ethics training, clear channels of communication, and ethics advocates within the company to provide support throughout the organization. Since some employees fear repercussions for reporting unethical behavior, many firms have set up ethics hotlines that employees can call in order to discuss ethics issues anonymously.

In fact, Sarbanes-Oxley has made it mandatory for public companies to have a whistleblower system in place. There is no substitute for individuals thinking through ethical dilemmas and feeling comfortable with their choices.

External reporting occurs when whistleblowers report wrongdoing to outsiders, such as the media or government regulatory agencies. The resulting negative publicity could be seriously damaging to the company. However, it can also be extremely important in discovering misconduct. Whistle-blowers involved with Enron, Lehman Brothers, and Bernard L. Madoff Investment Securities attempted to warn authorities that misconduct was occurring at the company. Failure to listen to whistle-blowers can result in serious misconduct that can damage many stakeholders. Recognizing that whistle-blowers are important in stopping misconduct, the government created a bounty program for whistle-blowers whose allegations result in a conviction of more than $1 million. Under this program, whistle-blowers can receive between 10 and 30 percent of the monetary sanctions collected.[15]


Source: fizkes/Shutterstock

Ethics hotlines often serve to allow employees to report potential organizational misconduct and receive guidance on the most appropriate conduct.

If a company is to maintain ethical behavior, its policies, rules, and standards must encourage ethical decision making and be enforced through a system of rewards for proper behavior and punishments for unacceptable behavior. Reducing unethical behavior is a goal no different from increasing profits or cutting costs. The manager sets a goal—achieving greater ethical behavior among company employees—and measures the outcome. If the number of employees making ethical decisions regularly is not increasing, the manager needs to determine why and take corrective action through stronger enforcement of current standards and policies or by strengthening the standards and policies themselves.

Additionally, there must be continuous improvement of ethics and compliance programs. Ethics programs are never static but always have room for improvement, particularly as new issues constantly arise. The implementation of an ethics program provides a plan for action in operational terms and establishes the means by which the organization's ethical performance will be monitored, controlled, and improved. As the program is implemented, the standards, structures, and resources can be continuously improved to align the company's values and codes of ethics with its employees.

The Nature of Social Responsibility

social responsibility: The obligation a business assumes to maximize its positive impact on society and minimize its negative impact.

Many consumers and social advocates believe that businesses should not only make a profit but also consider the social implications of their activities. **Social responsibility** is the obligation a business assumes to maximize its positive impact on society and minimize its negative impact. While many people use the terms *social responsibility* and *ethics* interchangeably, they do not mean the same thing. Ethics relates to an *individual's* or *business's* values, principles, and standards and the resulting decisions the individual makes, whereas social responsibility is a broader concept that concerns the impact of an *organization's* activities on stakeholders. In other words, ethics has more of a micro-focus related to individual and group decisions, whereas social responsibility has more of a macro focus related to how decisions affect stakeholders. From an ethical perspective, we may be concerned about managers' conflict of interest concerning hiring friends or relatives for positions in their firms; from a social responsibility perspective, we might be concerned about the impact that this may have on the community's well-being. Thus, ethics relates to social responsibility because having a positive impact on society involves making ethical decisions about issues that impact stakeholders.

There are four stages of social responsibility: financial viability; compliance with legal and regulatory requirements; ethics, principles, and values; and corporate citizenship

TABLE 4.4 Social Responsibility Requirements

Stage 1: Financial Viability
Stage 2: Compliance with Legal and Regulatory Requirements
Stage 3: Ethics, Principles, and Values
Stage 4: Corporate Citizenship

(Table 4.4).[16] A business whose *sole* objective is to maximize profits is not likely to consider its social responsibility, although its activities will probably be legal. Profits are an essential first step, and legal and regulatory responsibilities are the next step. A business that makes no profit or that commits illegal conduct probably will not be around long enough to get to the higher levels of social responsibility. We have discussed ethical conduct, and corporate citizenship involves additional activities that may not be required but which promote human welfare or goodwill. Corporate citizenship requires voluntary activities to strategically align the organization with social issues and contributions to philanthropic causes. While the first two stages have long been acknowledged, ethical issues and corporate citizenship are more recent concerns.

Source: SomjaiJaithieng/Shutterstock

Corporate social responsibility deals with the economic, legal, ethical, and philanthropic interests of stakeholders.

A business that is concerned about society as well as earning profits is likely to invest voluntarily in socially responsible activities. Outdoor clothing and gear company Patagonia, for instance, donates 1 percent of its profits toward environmental causes. Such businesses win the trust and respect of their employees, customers, and society by implementing socially responsible programs, and in the long run, they increase profits. Companies that fail to act responsibly risk losing consumers and may encourage the public and government to take action to restrict their activities. Most companies today consider being socially responsible a necessary cost of doing business.

Arguments For and Against Social Responsibility

Although the concept of social responsibility is receiving more and more attention, it is still not universally accepted. Among the arguments against social responsibility are the following:

1. It sidetracks managers from the primary objective of business—earning profits. Every dollar donated to social causes or otherwise spent on society's problems is a dollar less for owners and investors.
2. Participation in social programs gives businesses greater power, perhaps at the expense of particular segments of society.
3. Some people also question whether business has the expertise needed to assess and make decisions about social problems.
4. Many people believe that social problems are the responsibility of government agencies and officials, who can be held accountable by voters.

There are equally strong arguments for asking business to take responsibility for social issues, including the following:

1. Business helped to create many of the social problems that exist today, so it should play a significant role in solving them, especially in the areas of pollution reduction and toxic waste cleanup.

2. Businesses should be more responsible because they have the financial and technical resources to help solve social problems.
3. As members of society, businesses should do their fair share to help others.
4. Socially responsible decision making by business organizations can prevent increased government regulation.
5. Social responsibility is necessary to ensure economic survival: If businesses desire educated and healthy employees, customers with money to spend, and suppliers with quality goods and services in years to come, they must take steps to help solve the social and environmental problems that exist today.

Evolution of Social Responsibility

Before the twentieth century, businesses were largely responsible for defining how they would interact with society; their sole motivation was profit. Consumers could sue businesses that engaged in unscrupulous activities, but such action was expensive, and the chances of winning were slim. There were no consumer advocates or government agencies to protect consumers and society against deceptive advertising, defective products, or practices that harmed people and the environment. The rule for consumers was *caveat emptor*—"let the buyer beware." Generally, consumers were so anxious for new products that they did not want government intervention. As more and more businesses entered the marketplace, however, competition grew fierce, and abuses continued until it was inevitable that the government would have to intervene to protect consumers and workers.

Congress passed laws to reduce the monopolistic tendencies of big business and force companies to provide safer products and work environments. Federal agencies such as the Federal Trade Commission and the Securities and Exchange Commission were set up to protect consumers and police industry. Businesses gradually began to develop a sense of social responsibility when they realized that promotion, sales, and efficient production alone would not increase profits. By the 1950s, after finding that the key to increasing sales is to produce things that people want and need, businesses began to ask customers what they needed and to develop products to meet those needs. At the same time, employees were demanding better working conditions, and management and owners began to listen to them. Companies also began to seriously address the public outcry for product safety and reliability.

The 1960s represented a decade of change on nearly every front. Civil rights abuses, deterioration of the environment, concerns about product safety, and the Vietnam War led Americans to reexamine their values and priorities. People began to recognize that manufacturing processes and waste-disposal methods were harming the environment and that historically underrepresented groups had been denied their full rights in the workplace. The public began to demand that everyone—individuals, government, and businesses—take greater responsibility for their actions. IBM and other companies saw that the way to build a positive image with the public and ensure future sales was to act in a socially responsible manner.

Scandals during the past 20 years, including the financial crisis brought on by subprime mortgages and risky financial products, have reiterated the need for ethics and social responsibility. Businesses today are expected not only to earn profits for shareholders but to take into account additional stakeholders, including com-

Source: Paul Brady Photography/Shutterstock

The legal and regulatory environment has had a significant impact on the organizational awareness of stakeholder needs.

munities and the environment. This trend has resulted in green product offerings and supply chain practices, community service, volunteerism, and other socially responsible initiatives. More and more businesses view the adoption of socially responsible management techniques, manufacturing processes, charitable donation policies, and more as necessary for meeting the demands of society. In addition, this greater societal demand for socially responsible business activities has led firms such as Whole Foods, Starbucks, Waste Management, and The Container Store to view socially responsible activities as a way to gain competitive advantages.

Social responsibility was put in the spotlight during the COVID-19 pandemic as millions of people faced layoffs, supply chains were upended, and front-line workers feared for their health and safety. Disruptions in the economy, including supply shortages, reduced consumer spending, and a labor shortage, resulted in inflation reaching a 30-year high. Companies established heightened health and safety practices, increased corporate giving and cause-related marketing, and offered financial assistance to employees. Companies that were slow to respond or did not respond adequately were criticized for their poor treatment of stakeholders. Facing ethical dilemmas, some business owners put profit ahead of public health. The global pandemic highlighted the importance of addressing environmental, social, and governance issues.

The Environmental, Social, and Governance Framework

Environmental, social, and governance (ESG) is a framework used to evaluate an organization's environmental, social, and governance performance. *Environmental* refers to climate change, greenhouse gas emissions, energy use, waste, pollution, resource depletion, recycling, and more. *Social* refers to employee relations; product liability; health and safety; community relations; and diversity, equity, and inclusion, among other issues. *Governance* refers to corporate governance issues such as executive pay, regulatory compliance, shareholder rights, ethical leadership, audits, and accountability.

environmental, social, and governance (ESG): A framework used to evaluate an organization's environmental, social, and governance performance.

Social responsibility represents an ideal that guides a company's culture and objectives, whereas ESG is the measurable outcome of a business's socially responsible activities. Investors often review ESG metrics to determine which funds to invest in. ESG indices help investors build a sustainable portfolio. Accenture, Nvidia, and Gildan Activewear are examples of companies with high ESG scores. One criticism against ESG is that companies may be controlled by the companies that create ESG stock indices, which may not be in the interest of shareholders. Managers must make important decisions about how to reach ESG goals using the organization's resources, carefully manage risks and opportunities, regularly monitor key performance indicators, and continuously assess and improve the program.

Social Responsibility Issues

As with ethics, managers consider social responsibility on a daily basis as they deal with real issues. Among the many social responsibility issues they must consider are their organizations' relations with owners/investors, employees, customers, the environment, and the community. These key stakeholder groups are associated with the impact of corporate decisions on their well-being. Table 4.5 provides some examples of stakeholder issues. Social responsibility is a dynamic area, with issues changing constantly in response to society's desires.

It is often assumed that ethics and social responsibility mean the same thing. As we have already mentioned, they are not synonymous. Ethical decision making occurs when decisions about issues are judged as right or wrong, ethical or unethical. Social responsibility is a broader

Source: AYA images/Shutterstock

Many organizational social responsibility initiatives deal with stakeholder concerns and environmental issues.

TABLE 4.5 Examples of Stakeholder Issues

Stakeholder Group	Stakeholder Issues
Employees	1. Compensation and benefits 2. Diversity, equity, and inclusion 3. Occupational health and safety 4. Communications
Customers	1. Product safety and quality 2. Customer complaints and concerns 3. Disadvantaged or challenged consumers 4. Truthfulness of communications
Investors	1. Transparency of financial information 2. Shareholder rights 3. Corporate governance 4. Return on investment
Community	1. Public health and safety 2. Sustainability 3. Corporate citizenship 4. Economic contributions
Environmental Groups	1. Minimizing energy use 2. Minimizing emissions and waste 3. Enhancing the viability of animal and plant life 4. Minimizing adverse environmental effects of products

concept and includes how decisions impact all stakeholders and society.[17] Ethics is embedded in every managerial decision as it relates to questions about right or wrong. Many of these decisions impact the internal environment, including work relationships and the integrity of the work environment. We agree that the impact of managerial decisions on stakeholders does have social responsibility implications. But many people only look at ethics as decisions that can affect the environment, enhance sustainability, improve communities, avoid harm to vulnerable stakeholders (e.g., children and other disadvantaged groups), and so forth. Social responsibility issues relate to social issues, consumer protection, corporate governance, legal responsibilities, employee well-being, and sustainability.

While ethical decisions have significant social responsibility ramifications, the managerial decisions made on a daily basis impact the firm's ethical culture as well as its profitability and success. This section highlights a few of the many social responsibility issues that managers face; as managers become aware of and work toward the solution of current social problems, new ones will certainly emerge.

Relations with Owners and Investors

Businesses must be responsible to their owners or shareholders, who are primarily concerned with earning a profit or a return on their investment in a company. In a small business, this responsibility is fairly easy to fulfill because the owner(s) personally manages the business or knows the managers well. In larger businesses, particularly corporations owned by thousands of stockholders, assuring responsibility to the owners becomes a more difficult task.

A business's responsibilities to its owners and shareholders, as well as to the financial community at large, include maintaining proper accounting procedures, providing all relevant information to investors about the current and projected performance of the firm, and protecting the owners' rights and investments. Good corporate governance and com-

MANAGEMENT INSIGHTS

Rough Landing with Airbus Scandals

Source: vaalaa/Shutterstock

Airbus, a leader in the aerospace industry, was sued over a global bribery scandal.

A former subsidiary of Airbus SE, an aerospace corporation, pleaded guilty to one count of corruption in a Saudi Arabia National Guard bribery case. The subsidiary was ordered to pay $42 million. Due to the delicate political nature of the United Kingdom's relationship with Saudi Arabia, an important ally, the case took nearly a decade to resolve.

In addition to the Saudi Arabia bribery case, there was a four-year bribery and corruption investigation into Airbus's aerospace business in more than a dozen countries. Illicit payments were made to third-party consultants to attain sales orders from commercial airlines, increasing Airbus's profits by more than $1 billion. The investigation resulted in a payment of $4.2 billion to prosecutors in the United States, the United Kingdom, and France. Airbus reported the misconduct to regulators after an internal investigation revealed irregularities.

The global bribery scandal tarnished Airbus's reputation. High-level leaders at Airbus were removed as a result, and new control systems were put into place, including the implementation of a new ethics and compliance system designed to prevent and detect misconduct at the earliest stages. The company introduced a zero-tolerance policy for ethical misconduct. The company agreed to be monitored by an external compliance officer during its road to recovery. As a result of the settlement and the changes Airbus made, the aerospace company avoided criminal charges.

The global bribery scandal led to Airbus, its auditors, and its executives being sued by 130 investors for nearly $340 million. Investors claimed that Airbus did not adequately disclose the events related to the scandal in its financial statements, including potential settlement details, resulting in investors purchasing shares at an inflated price. Because of this, the investors claimed Airbus failed to protect the interests of the stakeholder group.

Airbus's troubles are far from over. The company faces an ongoing $1.4 billion dispute with Qatar Airways over product quality and safety. These scandals have hurt the company's reputation and have cost the company billions of dollars. Trust is hard to build but easy to break, and it can take a significant amount of time to restore goodwill with stakeholders. Airbus must improve its governance standards to earn back trust.[18]

pliance with regulations such as the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act create transparency and confidence. In short, a business must maximize the owners' investment in the firm in a socially responsible manner.

Employee Relations

Another issue of importance to business is its responsibilities to employees, for without employees, a business cannot carry out its goals. Employees expect businesses to provide them with a safe workplace, pay them adequately for their work, and tell them what is happening within their company. They want employers to listen to their grievances and treat them fairly.

Congress has passed several laws regulating safety in the workplace, many of which are enforced by the Occupational Safety and Health Administration (OSHA). Labor unions have also made significant contributions to achieving safety in the workplace and improving wages and benefits. Most organizations now recognize that the safety and satisfaction of their employees is a critical ingredient in their success, and many strive to go beyond what is expected of them by the law. Zappos, for instance, focuses extensively on employee happiness. Zappos tries to create a fun, participative environment for employees. Organizations such as these have discovered that healthy, satisfied employees supply more than just labor to their employers. Employers are beginning to realize

Source: Lucky Business/Shutterstock

Employee recognition programs have a significant impact on employee loyalty and satisfaction.

the importance of obtaining input from even the lowest-level employees to help the company reach its objectives.

A major social responsibility for business is providing equal opportunities for all employees regardless of their gender, age, race, religion, sexual orientation, or nationality. Women and people of color have been slighted in the past in terms of education, employment, and advancement opportunities; additionally, many of their needs have not been addressed by business. For example, women—who continue to bear most childrearing responsibilities—often experience conflict between those responsibilities and their duties as employees. During the Great Resignation, an economic trend in which U.S. workers voluntarily quit their jobs, some women left the workforce and did not return. In the workplace, women continue to be paid less than men for equal work. Today, many Americans believe business has a social obligation to provide special opportunities for these historically underrepresented groups to improve their standing in society.

Consumer Relations

consumerism: The activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers.

A critical issue today is business's responsibility to consumers. Consumers look to business to provide them with satisfying, safe products and to respect their rights as consumers. The activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers are known as **consumerism**. To achieve their objectives, consumers and their advocates write letters to companies, lobby government agencies, make public service announcements, and boycott companies whose activities they deem irresponsible.

Many of the desires of those involved in the consumer movement have a foundation in John F. Kennedy's 1962 consumer bill of rights, which highlighted four rights. The *right to safety* means that business must not knowingly sell anything that could result in personal injury or harm to consumers. Defective or dangerous products erode public confidence in the ability of business to serve society. They also result in expensive litigation that ultimately increases the cost of products for consumers. This is why many firms will institute product recalls even when there is a slim possibility of defects or contamination. For example, JUST recalled its JUST Egg Chopped Spring Greens due to a possible *Listeria* health risk. The recalled lots tested negative for *Listeria*, and the lot that tested positive was not released to the public, but the company voluntarily recalled the products as a precautionary measure.[19]

The *right to be informed* gives consumers the freedom to review complete information about a product before they buy it. This means that detailed information about ingredients, risks, and instructions for use is to be printed on labels and packages. The *right to choose* ensures that consumers have access to a variety of goods and services at competitive prices. The assurance of both satisfactory quality and service at a fair price is also a part of the consumer's right to choose. The *right to be heard* assures consumers that their interests will receive full and sympathetic consideration when the government formulates policy. It also ensures the fair treatment of consumers who voice complaints about a purchased product.

Sustainability Issues

Consumers want not only a multitude of products that improve the quality of life but also a healthy environment so that they can maintain a high standard of living over their lifetimes. Sustainability has become a leading issue in the twenty-first century as both business and the public acknowledge the damage done to the environment by past generations. Today's consumers are increasingly demanding that businesses take greater responsibility for their actions and impact on the environment. For example, pollution and waste have emerged as two of the major sustainability issues.

Pollution and Waste

A major issue in the area of environmental responsibility is pollution. Water pollution results from the dumping of toxic chemicals and raw sewage into rivers and oceans, from oil spills, and from the burial of industrial waste in the ground, where it may filter into underground water supplies. Fertilizers and insecticides used in farming and grounds maintenance also drain into water supplies with each rainfall. Water pollution problems are especially notable in heavily industrialized areas. A growing concern is the discovery of trace amounts of pharmaceuticals in certain supplies of water. Large oil spills, such as the BP *Deepwater Horizon* disaster, kill many marine animals and damage the livelihoods of local fishermen. Due to the illnesses that contaminated water can cause, society is demanding that water supplies be clean and healthful to reduce the potential danger from polluting substances.

Air pollution is usually the result of smoke and other wastes emitted by manufacturing facilities, as well as carbon monoxide and hydrocarbons emitted by motor vehicles. In addition to the health risks posed by air pollution, when nitrous oxides and sulfur dioxides from the emissions of manufacturing facilities react with air and rain, acid rain results. Acid rain has contributed to the deaths of many valuable forests and lakes in North America as well as in Europe.

Air pollution may also contribute to climate change, or long-term shifts in average weather patterns and temperature. Recent years have been the hottest on record. A major concern for society is the melting of Earth's polar ice caps. Melting has appeared to have increased in the last few decades. This melting is believed to be a result of climate change. Extensive melting could lead to the flooding of coastal cities. Species that live along the ice caps, such as polar bears, are at risk of extinction if the rate of melting continues to increase. Additionally, record-breaking heat waves, winter storms, droughts, and other atmospheric events are said to be caused by climate change.

Land pollution results from the dumping of residential and industrial waste, strip mining, forest fires, and poor forest conservation. Land pollution is tied directly to water pollution because many of the chemicals and toxic wastes that are dumped on the land eventually work their way into the water supply. The dumping of toxic wastes in Love Canal (near Niagara Falls, New York) caused later residents to experience high rates of birth defects and cancer before they were forced to abandon their homes by the U.S. government in the late 1970s and early 1980s. In Ecuador Chevron has been in a battle against the government amidst allegations that Texaco, which Chevron later acquired, polluted rainforest land.[20] In Brazil and other South American countries, rainforests are being destroyed to make way for farms and ranches, at a cost of the extinction of the many animals and plants (some endangered species) that call the rainforest home. Large-scale deforestation also depletes the oxygen supply available to humans and other animals.

Related to the problem of land pollution is the larger issue of how to dispose of waste in an environmentally responsible manner. Also compounding the waste disposal problem is the fact that much solid waste comprises plastic goods, which do not decompose. Electronic waste (e-waste) in landfills releases harmful toxins into the air and water. Electronics firms have faced increasing pressure to implement recycling programs. Many large retailers offer electronics and appliance recycling, whereas other companies offer trade-in or buyback programs.

Source: TR STOK/Shutterstock

Air pollution is a significant global environmental issue.

Source: DAMRONG RATTANAPONG/Shutterstock

E-waste is a major environmental concern.

Response to Environmental Issues

Partly in response to federal legislation such as the National Environmental Policy Act of 1969 and partly due to consumer concerns, businesses are responding to environmental issues. Many small and large companies—from Walt Disney Co. to Chevron—have created a relatively new executive position, a vice president of environmental affairs, to help them achieve their business goals in an environmentally responsible manner. Many companies are publishing estimates on the effects of their business on climate change and policies to deal with climate change.

Many firms are trying to eliminate wasteful practices, the emission of pollutants, and the use of harmful chemicals from their manufacturing processes. Other companies are seeking ways to improve their products. Automakers from all over the world are introducing automobiles that run on alternative fuels—electricity, solar power, natural gas, and methanol. Walmart highlights products it deems environmentally responsible so consumers can readily identify them; it also sponsors recycling centers in the parking lots of some stores. Many businesses have turned to recycling, the reprocessing of previously used materials—aluminum, paper, glass, and some plastic—for new purposes. Kellogg's, for example, uses recycled paper in the packaging of its cereal products. Some coffee shops have started using cups made from corn plastic rather than from regular plastic or Styrofoam. Best Buy encourages consumers to recycle their old computers at their stores. Such efforts to make products, packaging, and processes more environmentally friendly have been labeled "green" business.

It is important to recognize that, with current technology, environmental responsibility requires trade-offs. Society must weigh the huge costs of limiting or eliminating pollution against the health threat posed by the pollution. Environmental responsibility imposes costs on both business and the public. Although people certainly do not want oil fouling beautiful waterways and killing wildlife, they insist on low-cost, readily available gasoline, heating oil, and goods. People do not want to contribute to the growing garbage disposal problem, but they sometimes do not want to pay more for "green" products packaged in an environmentally friendly manner, recycle as much of their own waste as possible, and permit the building of additional waste disposal facilities. Thus, managers must coordinate environmental goals with other social and economic ones.

Alternative and Renewable Energy

With ongoing plans to reduce global carbon emissions, countries and companies alike are looking toward non-carbon-based alternative energy sources. Traditional fossil fuels are problematic because of their emissions, but also because stores have been greatly depleted. Foreign fossil fuels are often imported from politically and economically unstable regions, often making it unsafe to conduct business there. With global warming concerns and fluctuating gas prices, global governments have begun to recognize the need to look toward alternative forms of energy as a source of fuel and electricity. There have been many different ideas as to which form of alternative energy would best suit the United States' energy needs. These sources include wind power, geothermal energy, solar power, nuclear power, biofuels, and hydropower.

Wind Power

The Great Plains of the United States is one of the greatest sources of wind energy in the world, and many people believe that harnessing this energy will go a long way toward providing for the United States' energy needs in the future. However, a number of roadblocks remain between taking abundant wind and turning it into affordable energy. Restructuring the nation's power grids to efficiently transmit wind, solar, and other forms of renewable energy will take significant investments. Widespread adoption of wind power has been slowed in the United States by the high cost of the turbines as well as limitations on an outdated national power grid. The technology is more expensive and less efficient than fossil fuels currently, but advances are being made. Many people believe that the United States will be a wind power hot spot in the future. Many organizations also strongly support the use of wind power. New Belgium Brewing, through the purchase of wind power credits, became the first wind-powered brewery in the country.

Geothermal Power

Another form of renewable energy is geothermal power. Geothermal energy comes from the natural heat inside the earth, which is extracted by drilling into steam beds. Though startup costs are high to build geothermal plants, geothermal energy is a relatively clean energy source. The drilling is not pollution free, but its carbon dioxide emissions are one-sixth of those produced by efficient natural gas power plants. Geothermal plants also use a lot less water than coal power plants, and unlike wind or solar energy, geothermal power can provide a steady flow of electricity every day of the year. Two IKEA stores use geothermal power to help meet their energy needs.

Despite these advantages, geothermal energy extraction is expensive and supplies less than 5 percent of the world's global energy production. Part of the problem may be that geothermal drilling sites are not readily available everywhere; certain factors, such as

Source: N.Minton/Shutterstock

A geothermal plant in New Zealand.

the permeability of rock and permitting, must be taken into account. However, when organizations do tap into geothermal power, the cost savings can be significant. The U.S. Department of Energy launched an $84 million program to demonstrate enhanced geothermal energy systems and spur further growth of geothermal energy.[21]

Solar Power

Solar power uses the energy from the sun to generate electricity and hot water. This 100 percent renewable, passive energy source can be converted into electricity through the use of either photovoltaic cells (solar cells) on homes and other structures or solar power plants. The major disadvantages of solar power are that the technology remains expensive and inefficient compared to traditional fossil fuel–generated energy and that the infrastructure for mass production of solar panels is not in place in many locations. Given the strong sunshine in places like the U.S. Southwest and California, solar power has gained a lot of support in the United States. A report from the U.S. Department of Energy states that solar energy usage is at a new high. Solar energy is becoming an increasingly viable alternative for businesses to cut their pollution and emissions. For instance, many retailers have solar panels on their roofs to generate electricity. Everywhere you look, the move to harvest the sun's power is growing.

Source: Aerovista Luchtfotografie/Shutterstock

Many companies use solar power.

Nuclear Power

Countries throughout Europe have managed to greatly reduce their emissions through the implementation of nuclear power plants, yet this form of power remains controversial. Because of the danger associated with nuclear meltdowns and radioactive waste disposal, nuclear power has earned a bad reputation. On the one hand, nuclear power is pollution-free and cost-competitive. On the other hand, critics are concerned with the safety of nuclear power plants and the disposal of waste. As the production of nuclear power gives off radiation, the safety of workers and the transport of nuclear waste are prime concerns. The Chernobyl accident in Ukraine in 1986 is the most infamous disaster. The nuclear reactor malfunctioned, resulting in many deaths and negative health effects. Since then, nuclear reactor safety has improved, yet the potential dangers of nuclear power remain major issues. The dangers of nuclear power were demonstrated after an earthquake and a resulting tsunami damaged nuclear reactors in Japan, resulting in a nuclear emergency for the nation. Some are also concerned that nuclear power plants could be targets for terrorist attacks.

Biofuels

Biofuels are fuels derived from organic materials like corn, sugarcane, vegetable oil, and even trash. While ethanol made from sugarcane has been widely used in Brazil for decades, the idea of biofuels is relatively new in the United States. This idea has become especially popular with those who want to reduce their car's carbon output or who are concerned with the nation's addiction to foreign oil. The demand for flex-fuel and hybrid vehicles that can run on biofuels or gasoline is on the rise. B20, the most common biodiesel blend, can be used in current engines without modifications.

Legal mandates to incorporate biofuels have been passed in some countries. In 1976, for example, the Brazilian gov-

Source: Ground Picture/Shutterstock

Demand for flex-fuel and hybrid vehicles that can run on biofuels or gasoline is on the rise.

ernment made it a requirement to blend gasoline with ethanol. As a result, Brazil is currently the largest exporter of bioethanol. Part of the reason why biofuels have not been as popular in the United States has to do with the source of the fuel. While Brazil uses sugarcane, which is convertible to fuel because of its high sugar content, the United States relies on corn, which is not as easily converted to fuel. Biofuels are also controversial because they currently use food crops—widespread adoption of biofuels could lead to food shortages. The biofuel infrastructure in the United States also lags behind that in Brazil. Biofuel production in other countries like the Philippines has been criticized because it has contributed to rapid deforestation of ecologically sensitive areas—companies in a rush to create profits from the popularity of biofuels have installed plantations on former jungle land, for example.

Researchers have been hard at work developing new technologies that could produce biofuels without deforestation of land or food supplies. Cellulosic ethanol would be made from nonedible plants like grasses, sugarcane waste, and wood waste. Algenol, or biofuels made from algae, is also being investigated.

Hydropower

Throughout history, people have used water as a power source and a means of transportation. From the water-powered mills of centuries past to modern hydroelectric dams, water is a powerful renewable energy source. Although in the United States hydroelectric power only provides 7 percent of total output, hydroelectric provides 17 percent of total electricity production worldwide, making it the largest form of renewable energy.

As with all other forms of energy production, hydropower has benefits and downsides. One of the major downsides is the destruction of wildlife habitats, and sometimes even human habitations, when valleys are flooded using dams. Hydroelectricity also disrupts the lifecycles of aquatic life. Damming the Columbia River between Washington and Oregon decimated the region's salmon industry, for example. The benefits of hydroelectric energy include little pollution and inexpensive maintenance costs, once the infrastructure is in place.

Source: SorbyPhoto/Shutterstock

Hydropower has been a renewable source of energy for hundreds of years.

Community Relations

A final issue for businesses concerns responsibilities to the general welfare of the communities and societies in which they operate. Many businesses simply want to make their communities better places in which everyone can live and work. Although such efforts cover many diverse areas, some other actions are especially noteworthy. The most frequent way that businesses exercise their community responsibility is through donations to local and national charitable organizations. After realizing that the current pool of prospective employees lacks many basic skills necessary to work, many companies have become concerned about the quality of education in the United States. Although some members of the public fear business involvement in education, others believe that if business wants educated employees and customers in the future, it must help to educate them.

Business is also beginning to take more responsibility for the hardcore unemployed. The term *hardcore unemployed* refers to individuals who have been without a job for an extended period of time, often because of a lack of skills, knowledge, or education or as a result of some other mental or physical barrier. Some organizations, such as the National Alliance of Businessmen, fund programs to train the hardcore unemployed so that they can find jobs and support themselves. In addition to fostering self-support, such opportunities enhance self-esteem and help people become productive members of society.

PROFILES IN MANAGEMENT

NAME: Mary Barra
COMPANY: General Motors
INDUSTRY: Automotive
POSITION: Chair and CEO

Source: Steve Lagreca/Shutterstock

As the first woman to lead one of the "big three" U.S. automakers, General Motors (GM) CEO Mary Barra is known for her strong leadership and passion for GM. Barra assumed the role of CEO in 2014 after spending her career working at the automaker. Since assuming the role of CEO, Barra has won numerous accolades, including being named on the *Times'* "100 Most Influential People in the World" list.

Barra's end goal for GM is to create products with "zero crashes, zero emissions, and zero congestion." Her strong emphasis on customer safety and satisfaction was undermined by an ethics scandal shortly after she became CEO. In 2014, GM underwent a massive recall after ignition switch defects in some of its cars led to more than 100 deaths. To investigate, Barra hired a former attorney general, who found that GM had a toxic environment that discouraged employees from reporting safety issues.

Not only did Barra have to restore consumer trust in the brand, but she also needed to change the organizational culture. She launched a safety hotline so that employees could report safety concerns without fear of retribution and shortened a 10-page-long dress code to say "dress appropriately." Barra wanted employees to feel empowered to make the right decisions. She is also a strong advocate for diversity and inclusion, becoming the chair and founding member of GM's Inclusion Advisory Board.

Additionally, Barra views GM as an important partner in reducing carbon emissions. Under her leadership, GM is investing heavily in electric vehicles (EVs), with plans to stop manufacturing gasoline-powered automobiles by 2035. In the process, Barra realizes there will be short-term costs. She announced that GM would invest billions in ramping up EV production and would pull out of the slow-growth European market.

Although Barra has been forced to make tough decisions, she has confidence that a long-term approach to EV production is the way to go, both from an environmental and business standpoint. GM is developing a battery pack that can be used in any GM vehicle, which could bring down the costs of batteries and pass those savings on to the consumer. Currently, the prices of EVs prohibit many consumers from purchasing them. Barra believes that with GM's investment and innovation, the company can provide affordable EVs for the average consumer.[22]

Social Audits

To determine whether it is adequately meeting the demands of society as well as its own social responsibility objectives, an organization can measure its performance through a voluntary social audit. (The term *audit* comes from *audio*, the Latin verb for "to listen.") The **social audit** is a systematic examination of the objectives, strategies, organization, and performance of the social responsibility function. In a social audit, managers evaluate a company's long- and short-term contributions to society to determine whether the firm's social responsibility approach is working. The social audit can also enhance a company's social responsibility efforts by helping management evaluate the effectiveness of current programs and recommend activities for the future.

social audit: A systematic examination of the objectives, strategies, organization, and performance of the social responsibility function.

Managers should conduct a social responsibility audit on a regular basis—perhaps annually—to develop a good benchmark of where the company has been and where it is going. Conducting the audit involves five fundamental activities:

1. Identifying ongoing and new programs that support socially responsible actions and programs,

2. Determining the resources and the cost of resources that are required to support the programs and the benefits that have been achieved to date,
3. Identifying organizational objectives and making certain that social responsibility activities support those objectives,
4. Defining the reasons for undertaking particular social responsibility programs or supporting certain causes, and
5. Evaluating the success of each social responsibility program undertaken and identifying benchmark goals for future involvement.

The concept of auditing implies an official examination of social responsibility activities; however, these audits are often designed to occur informally. Most of the problems that arise in an audit can be attributed to the fact that there are few standards for evaluating social responsibility. The resulting information from the audit should be as quantitative and accurate as possible, depicting both the positive and negative findings.

A social audit can indicate to a firm whether it is living up to the expectations of society. It can pinpoint areas where the firm can take additional steps to maximize the positive effect of its activities as well as to minimize their negative impact. When used effectively, the social audit provides a tool for managers to help their firms become better citizens by contributing positively to society.

Summary and Review

- ***Define business ethics and explain its importance to management.*** Business ethics refers to moral principles and standards that define acceptable behavior in the world of business. Ethical considerations exist in nearly all management decisions. Ethical decisions foster trust among individuals and in business relationships; unethical ones destroy trust and make the continuation of business difficult, if not impossible.
- ***Detect some of the ethical issues that may arise in management.*** An ethical issue is an identifiable problem, situation, or opportunity requiring a person or organization to choose from among several actions that must be evaluated as ethical or unethical. Managers should be concerned about ethical issues related to their organization's impact on the environment, the firm's ethical standards, plant closings and layoffs, employee discipline and benefits, discrimination, health and safety, privacy, and drug and alcohol abuse in the workplace, as well as the achievement of organizational objectives in an efficient and ethical manner.
- ***Specify how personal moral philosophies, organizational relationships, and opportunity influence decision making in management.*** People are guided by different moral philosophies (a set of principles setting forth what is believed to be the right way to behave), each having its own concept of rightness or ethicality and rules for behavior. Two categories of moral philosophies are utilitarian and deontology. Organizational relationships—including the influence of managers, coworkers, and the work group—are important factors in ethical decision making. The greater a person's exposure to unethical behavior by managers and coworkers, the greater is the likelihood that the person will behave unethically. Opportunity is a set of conditions that punish unfavorable behavior or reward favorable behavior. A person who is not rewarded for favorable behavior or is punished for unethical behavior is not likely to repeat the behavior.
- ***Examine how managers can try to foster ethical behavior.*** Managers can change the organizational environment to promote ethical behavior among employees by limiting opportunity. One important way to do this is through the development of effective ethics and compliance programs. Adopting formal codes of ethics and policies is important because they reduce the incidence of unethical behavior by informing employees of what is expected of them and providing punishments for those who fail to comply. Support from high-level management is needed for the program to be effective. Often an ethics officer is assigned to manage the organization's ethics and compliance program. High-level managers and the board of directors must make sure that those put in charge of the ethics program do not have a propensity for misconduct. Ethics training helps to familiarize employees with the ethical situations they might come across in the workplace. Monitoring the progress of the ethics program is crucial, and managers can use ethics audits to evaluate the effectiveness of an ethics and compliance program and identify weaknesses to be corrected. Managers should also encourage employees to report ethical

concerns or observed misconduct. Additionally, if a company is to maintain ethical behavior, managers must enforce its policies, rules, and standards to encourage ethical decisions through a system of rewards for proper behavior and punishments for unacceptable behavior. Finally, managers should continuously seek to improve the company's ethics and compliance program.

- ***Define social responsibility and discuss its relevance to management.*** Social responsibility is the obligation an organization assumes in order to maximize its positive impact on society and minimize its negative impact. Socially responsible businesses may win the trust and respect of their employees, customers, and society and, in the long run, increase profits. There are strong arguments both for and against social responsibility by businesses. Environmental, social, and governance (ESG) is a framework used to evaluate an organization's environmental, social, and governance performance. ESG is the measurable outcome of socially responsible business activities.
- ***Debate an organization's social responsibilities to owners, investors, employees, and consumers, as well as to the environment and the community.*** Organizations must be responsible to their owners and investors, who expect to earn a profit or a return on their investment in the company. Businesses must maintain proper accounting procedures, provide all relevant information to investors about the current and projected performance of the firm, and protect the owners' rights and investments. In relations with employees, businesses are expected to provide a safe workplace, pay employees adequately for their work, and treat employees fairly. Consumerism refers to the activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers. Consumers' basic rights are spelled out in John F. Kennedy's 1962 consumer bill of rights: the right to safety, the right to be informed, the right to choose, and the right to be heard. Increasingly, society expects business to take greater responsibility for the environment. Among the issues of environmental responsibility are water, air, land, and noise pollution. Many businesses engage in activities to make the communities in which they operate a better place in which everyone can live and work.
- ***Determine the ethical issues confronting a hypothetical business.*** The "Business Dilemma" box presents an opportunity for you to study an ethical dilemma at Supreme Deluxe, a cosmetics company. Using the material presented in the chapter, you should be able to analyze the ethical issues present in the dilemma, evaluate an executive's plan, and develop a course of action for the firm.

Key Terms and Concepts

business ethics 95
codes of ethics 104
consumerism 112
deontology 101
environmental, social, and governance (ESG) 109
ethical issue 96
ethics audit 105
individual values 100
social audit 118
social responsibility 106
utilitarianism 100
whistle-blowing 105

Ready Recall

1. Define business ethics. What groups determine whether a business activity is ethical?
2. What is an ethical issue?
3. Distinguish between utilitarian philosophy and deontology. Supply an example of a business that has used each to make a decision.
4. How does opportunity contribute to unethical decisions in business?
5. What is a code of ethics? How can managers reduce unethical behavior in business?
6. Distinguish between ethics and social responsibility.
7. List and discuss the arguments for and against social responsibility by business. Can you think of any additional argument (for or against)? Can you take a position (for or against) and defend it?
8. What responsibilities does a business have toward its employees?
9. What responsibilities does business have with regard to the environment? What steps have been taken by some responsible businesses to minimize the negative impact of their activities on the environment?
10. What is a social audit? How can a social audit help a business improve its social responsibility activities?

Chapter Quiz

1. What is business ethics?
   A. Formalized rules and standards that describe and delineate what the organization expects of its employees
   B. Principles, values, and codes of conduct that define acceptable behavior in business
   C. An identifiable problem, situation, or opportunity that requires a person or organization to choose among several actions that may be evaluated as ethical or unethical
   D. The obligation a business assumes to maximize its positive impact on society and minimize its negative impact
2. Also known as *moral philosophies*, what term describes sets of principles that describe what a person believes are the right ways to behave?
   A. Codes of ethics
   B. Business ethics
   C. Social responsibilities
   D. Individual values
3. What name is given to a philosophy where believers seek the greatest satisfaction for the largest number of individuals?
   A. Deontology
   B. Utilitarianism
   C. Individual values
   D. Consumerism
4. What is a code of ethics?
   A. A systematic examination of the objectives, strategies, organization, and performance of the social responsibility function
   B. The obligation a business assumes to maximize its positive impact on society and minimize its negative impact
   C. Formalized rules and standards that describe and delineate what the organization expects of its employees
   D. A philosophy in which believers seek the greatest satisfaction for the largest number of individuals
5. What term describes what occurs when employees expose an employer's wrongdoing?
   A. Ethical issue
   B. Ethics audit
   C. Social audit
   D. Whistle-blowing
6. What name is given to the obligation a business assumes to maximize its positive impact on society and minimize its negative impact?
   A. Consumerism
   B. Deontology
   C. Utilitarianism
   D. Social responsibility
7. Which of the following characteristics relates to a social audit?
   A. Principles, values, and codes of conduct that define acceptable behavior in business
   B. A philosophy where believers seek the greatest satisfaction for the largest number of individuals
   C. A systematic examination of the objectives, strategies, organization, and performance of the social responsibility function
   D. An identifiable problem, situation, or opportunity that requires a person or organization to choose among several actions that may be evaluated as ethical or unethical
8. Which of the following best describes when a managerial decision becomes an ethical issue?
   A. When accepted rules no longer apply and the person must use his or her own moral standards
   B. When managers follow clear guidelines from high-level management
   C. When it is clear from the outset that the decision is illegal
   D. When the decision involves lying and active deception
9. Which of the following forms of alternative and renewable energy comes from the natural heat inside the earth that is released by drilling into steam beds?
   A. Wind power
   B. Geothermal power
   C. Hydropower
   D. Biofuels
10. What is environmental, social, and governance (ESG)?
    A. A framework used to evaluate an organization's environmental, social, and governance performance
    B. A systematic examination of the objectives, strategies, organization, and performance of the social responsibility function
    C. The activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers
    D. The obligation a business assumes to maximize its positive impact on society and minimize its negative impact

Answers can be found in the end-of-book Answers section.

Expand Your Experience

1. Discuss some recent examples of businesses engaging in unethical practices. Why do you think the business chose to behave unethically? What action might the business have taken?
2. Discuss with your class some possible methods of increasing ethical standards in business. Do you think that business should regulate its own activities, or should the federal government establish and enforce ethical standards? How do you think businesspeople feel?
3. Find some examples of socially responsible businesses mentioned in this chapter. Research these companies and explain why you believe their actions are socially responsible. Why do you think a given company chose to act as it did?

Strengthen Your Skills

Making Decisions about Ethical Issues

Below are three debate issues. Form three groups of four to six people and choose one of the debate issues. Each of the three groups will then be divided evenly, such that one group argues for one side of the issue while the other group argues the opposing side. This exercise will help you understand the nuances of ethical decision making through practice. Each team will be given five to ten minutes to debate their side of the issue.

Debate Issue 1: *Is Google Violating Users' Privacy?*

With 5.5 billion Google searches a day, Google is the preferred search engine for most consumers. Much of its popularity is due to the superior services it offers. Although Google does not charge for its services, critics point out that Google's services may actually be costing users their right to privacy. Many people are surprised to find that nearly all websites track some amount of a user's online activity. Some consumers feel that Google's access to personal information is a small price to pay in exchange for access to the company's variety of high-quality services. Google offers many free services and earns most of its revenue from advertising, making personal information incredibly valuable to the company's continued business success. Google's privacy policy details what information it collects and how the company uses that information, but most people do not read privacy policies.[23]

1. Google's storage of user data is legitimate and does not constitute a violation of user privacy.
2. Google should not store users' data as this data can be misused or accessed by the government.

Debate Issue 2: *Should executive pay be linked to ESG goals?*

Environmental, social, and governance (ESG) is a framework that allows firms to evaluate their priorities in these three areas. ESG performance is monitored by stakeholders, including investors. Many financial services companies give companies ESG scores to help investors identify companies with high social responsibility performance relative to their industry and investor priorities. With increasing evidence that strong ESG performance contributes to good financial outcomes, more companies are linking executive pay with ESG goals.

Critics say ESG metrics are inconsistent from company to company because there is no standardization, and some goals are challenging to measure. However, ESG is becoming more standardized. The World Economic Forum, for instance, has shared common metrics in the name of consistent reporting of ESG measures, and the European Union established ESG reporting requirements. The United States does not yet mandate ESG disclosures, but this could change in the future. Those who support tying executive compensation to ESG measures believe it gives executives an incentive to perform well on environmental, social, and governance metrics, thus improving a firm's financial performance.

1. Executive pay should be linked with ESG goals to help companies meet their objectives.
2. There are too many challenges with measuring ESG metrics, so executive pay should not be linked with them.

Debate Issue 3: *Examining Warren Buffett as an Effective Leader*

Warren Buffet has been the leader of Berkshire Hathaway, Inc., for more than 50 years. Buffet has been viewed as an ethical leader who emphasizes integrity in his managerial choices. His conglomerate is one of the largest companies in the United States. Buffet relies on the character of the CEOs of the various companies in his conglomerate, and in many cases, he may only have a few conversations with the CEO over the course of the year. He empowers managers to run their businesses without micromanagement. In a letter to shareholders, Buffett once wrote, "our trust is in people rather than process." His trust in his associates has been undermined in the past, however. For example, Wells Fargo was one of Buffet's favorite stocks. An account fraud scandal involving Wells Fargo employees who opened millions of fake accounts without customer knowledge came to light, revealing a bankrupt organizational culture with aggressive sales goals. Berkshire Hathaway would later dump all of its Wells Fargo holdings.[24]

1. Warren Buffett is correct in trusting those around him to have high integrity and the ability to make ethical decisions based on their character.
2. Warren Buffett needs to focus more on organizational ethical codes and compliance and less on the character of the manager that he puts in charge of the company.

Case 4: Social Responsibility Is in Style at Patagonia

Patagonia is an independent outdoor apparel company based in Ventura, California. Founded in 1973 by Yvon Chouinard, Patagonia is considered to be one of the world's most ethical companies. Patagonia has four core values that guide its business operations: (1) build the best product, (2) cause no unnecessary harm, (3) use business to protect nature, and (4) not bound by convention.

Chouinard saw a need for high-quality, environmentally friendly outdoor equipment in the 1960s. He made his own reusable pitons for rock climbing that were stronger than what was currently available on the market. For nearly a decade, Chouinard and partner Tom Frost sold products under the Chouinard Equipment name, making improvements on nearly every climbing tool. Chouinard and his wife Malinda began selling clothing to support Chouinard Equipment. The clothing business was named Patagonia to reflect the mystical allure of far-off lands and adventurous places located beyond the map.

When Patagonia was founded, Yvon and Malinda agreed that the company would make only the highest-quality products in the most responsible way possible. In the 1990s, Patagonia started to use more durable organic cotton, even though it was more expensive. This could have turned customers away or decreased repeat business because of the long-lasting nature of the material, but Chouinard found that people were more willing to do business with Patagonia because of its high regard for the environment and product quality. Today, recycled materials account for nearly all of Patagonia's clothing. The company's annual revenue has hit $1 billion in recent years.

Patagonia's organizational culture values self-motivated team players who love the outdoors. Chouinard believed employees should have flexible time to enjoy nature and spend time with their friends and families. On Election Day, Patagonia gives all employees the day off to vote in presidential elections. Employees are highly satisfied, resulting in a low turnover rate relative to the industry. The people-first mentality was put to the test during the COVID-19 pandemic, and the company passed with flying colors. Patagonia prioritized employee safety, temporarily closing all stores, offices, and other operations and suspending online orders for more than a month. It


Source: Sorbis/Shutterstock

was one of the first major retailers to close, doing so before the government announced any shutdowns, and it was one of the last major retailers to reopen, ensuring that all necessary safety precautions were in place before asking employees to return to work. While other retailers were eager to recoup lost sales, Patagonia prioritized public health over profit.

Patagonia has a history of strong leadership in management. Patagonia's former CEO, Rose Marcario, was the recipient of a number of environmental and ethics awards. She started as the company's chief financial officer in 2008 and moved on to the CEO position in 2014. She was influential in leading the company toward its social responsibility goals. In 2020, Marcario was succeeded by Ryan Gellert, who was previously responsible for overseeing the company's business across Europe, the Middle East, and Africa. Gellert was selected by the board of directors because of his commitment to Patagonia's mission and values.

Patagonia is certified as a B Corporation by the nonprofit B Lab. This voluntary certification holds the company to high standards of performance, accountability, and transparency. B Corps must measure their social and environmental impact and are required to recertify every three years to retain the prestigious designation. Well-known B Corps include Seventh Generation, King Arthur Baking Company, and Warby Parker.

Patagonia has many initiatives designed to help the environment. For example, Chouinard co-founded the "1% for the Planet" movement, in which companies commit a portion of their proceeds to environmental organizations to support sustainability and environmental preservation. To date, Patagonia has contributed more than $140 million in cash and in-kind donations to the organization. Patagonia also co-founded the Conservation Alliance, a 180-member organization that encourages businesses in the outdoor industry to contribute to environmental organizations.

To further protect the environment, Patagonia has improved the quality of its materials and implemented a Worn Wear recycling program. Patagonia has more than 100 repair guides to help its customers keep their apparel in use for longer. The company is known for its generous return policy, but because returns often come at an environmental cost due to shipping and transportation, Patagonia offers a repair program and a trade-in program. More than 400,000 products have been repaired in North America at the company's repair centers and on its Worn Wear repair tours. Customers that opt to trade in their used gear can get a credit toward future Patagonia purchases.

Patagonia ensures that every product developed aligns with the company's values. The company monitors its supply chain and performs routine factory audits, scoring factories on their progress toward social responsibility goals. The company's suppliers must also audit their factories to ensure they meet safety, social responsibility, and environmental standards. By doing this, Patagonia integrates social responsibility into its supply chain.

Under the leadership of CEO Gellert, Patagonia seeks to make a difference in the world. The company demonstrates how good ethics is good business, showing that purpose and profit can go hand in hand.[25]

1. How has Yvon Chouinard been able to promote corporate social responsibility among other businesses?
2. Does Patagonia—a privately held, debt-free company—have an advantage over public companies with shareholders by being socially responsible?
3. How do the company's recycling and repair programs benefit the environment?

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