Chapter 2

Business Ethics and Social Responsibility

CHAPTER OUTLINE

OBJECTIVES

After reading this chapter, you will be able to:

- Define business ethics and social responsibility and examine their importance.
- Detect some of the ethical issues that may arise in business.
- Specify how businesses can promote ethical behavior.
- Explain the four dimensions of social responsibility.
- Debate an organization's social responsibilities to owners, employees, consumers, the environment, and the community.
- Evaluate the ethics of a business's decision.

The Home Depot Helps Build Better Communities

The Home Depot employs approximately 300,000 people and operates more than 1,700 stores in all 50 states, the District of Columbia, Puerto Rico, eight Canadian provinces, and Mexico. It also operates four wholly owned subsidiaries: Apex Supply Company, Your Other Warehouse, Maintenance Warehouse, and HD Builder Solutions Group. The company racks up approximately $65 billion in annual sales, dominating the $900 billion worldwide market in home improvement. Home Depot is also the second-largest retailer in the United States. Now the world's largest home-improvement retailer, Home Depot continues to do things on a grand scale, including putting its corporate muscle behind a tightly focused social responsibility agenda.

Home Depot is actively involved in pursuing programs of social responsibility, business ethics, and environmental excellence. From progressive consumer education programs to certified "green" products, the company is dedicated to making a positive impact on society. As a concerned corporate citizen, the company supports organizations such as the World Wildlife Fund and The Nature Conservancy. The company also promotes Energy Star and other energy-efficient merchandise, and it offers advice about energy efficiency in customer clinics. The company sold more than 15 million Energy Star–certified products in 2003, which saved consumers approximately $134 million from their electric bills. In addition, Home Depot recycled thousands of tons of cardboard and 24.5 million wood delivery pallets in the last year.

Building better communities is a central theme for Home Depot, which it demonstrates with its support of nonprofit organizations such as Habitat for Humanity, Rebuilding Together, United Way, and KaBOOM. In 2003, the

continued

company participated in the renovation of 5,300 homes through its partnership with Rebuilding Together, and helped construct 58 playgrounds through KaBOOM, the company's largest nonprofit partner. Since 1996, KaBoom has built 152 playgrounds.

Home Depot has developed a strong ethics commitment for its employees and management team. For example, Home Depot is proud of its corporate governance, with 10 out of 11 of its directors being outside the company and independent. While any large corporation will be criticized for not doing more, Home Depot has a commitment to try to be a responsible member of society.[1]

Introduction

As the opening vignette illustrates, Home Depot has taken on the challenge of contributing to society through its business activities. At the other extreme, wrongdoing by some businesses has focused public attention and government involvement to encourage more acceptable business conduct. Any business decision may be judged as right or wrong, ethical or unethical, legal or illegal.

In this chapter, we will take a look at the role of ethics and social responsibility in business decision making. First we define business ethics and examine why it is important to understand ethics' role in business. Next we explore a number of business ethics issues to help you learn to recognize such issues when they arise. Finally, we consider steps businesses can take to improve ethical behavior in their organizations. The second half of the chapter focuses on social responsibility. We survey some important responsibility issues and detail how companies have responded to them.

Business Ethics and Social Responsibility

business ethics
principles and standards that determine acceptable conduct in business

In this chapter, we define **business ethics** as the principles and standards that determine acceptable conduct in business organizations. The acceptability of behavior in business is determined by customers, competitors, government regulators, interest groups, and the public, as well as each individual's personal moral principles and values. For example, Jeffrey K. Skilling, former chief executive officer of Enron, was indicted on charges that he conspired to use fraudulent accounting practices in order to deceive shareholders, creditors, and regulators about the true financial state of the energy company. When Enron's true condition was exposed in 2001, it collapsed under a mountain of debt, resulting in the layoff of thousands of employees and the loss of retirement funds for former employees whose pensions had been invested in the firm's stock. Although Skilling pleaded not guilty to the charges, the ethics of his decision will be judged by a jury.[2]

social responsibility
a business's obligation to maximize its positive impact and minimize its negative impact on society

Many consumers and social advocates believe that businesses should not only make a profit but also consider the social implications of their activities. We define **social responsibility** as a business's obligation to maximize its positive impact and minimize its negative impact on society. Although many people use the terms *social responsibility* and *ethics* interchangeably, they do not mean the same thing. Business ethics relates to an *individual's* or a *work group's* decisions that society evaluates as right or wrong, whereas social responsibility is a broader concept that concerns the impact of the *entire business's* activities on society. From an ethical perspective, for

TABLE 2.1 A Timeline of Ethical and Socially Responsible Concerns

1960s	1970s	1980s	1990s	2000s
• Environmental issues • Civil rights issues • Increased employee-employer tension • Honesty • Changing work ethic • Rising drug use	• Employee militancy • Human rights issues • Covering up rather than correcting issues	• Bribes and illegal contracting practices • Influence peddling • Deceptive advertising • Financial fraud (e.g., savings and loan scandal) • Transparency issues	• Sweatshops and unsafe working conditions in third-world countries • Rising corporate liability for personal damages (e.g., cigarette companies) • Financial mismanagement and fraud	• Cyber crime • Privacy issues • Financial mismanagement • International corruption • Loss of employee privacy • Intellectual property theft

Source: "Business Ethics Timeline," *Ethics Resource Center* (n.d.), www.ethics.org/be_timeline_chart.html (accessed February 22, 2004).

example, we may be concerned about a health care organization overcharging the government for Medicare services. From a social responsibility perspective, we might be concerned about the impact that this overcharging will have on the ability of the health care system to provide adequate services for all citizens.

The most basic ethical and social responsibility concerns have been codified as laws and regulations that encourage businesses to conform to society's standards, values, and attitudes. For example, after accounting scandals at a number of well-known firms in the early 2000s shook public confidence in the integrity of Corporate America, the reputations of every U.S. company suffered regardless of their association with the scandals.[3] To help restore confidence in corporations and markets, Congress passed the Sarbanes-Oxley Act, which criminalized securities fraud and stiffened penalties for corporate fraud. At a minimum, managers are expected to obey all laws and regulations. Most legal issues arise as choices that society deems unethical, irresponsible, or otherwise unacceptable. However, all actions deemed unethical by society are not necessarily illegal, and both legal and ethical concerns change over time (see Table 2.1). Business law refers to the laws and regulations that govern the conduct of business. Many problems and conflicts in business can be avoided if owners, managers, and employees know more about business law and the legal system. Business ethics, social responsibility, and laws together act as a compliance system requiring that businesses and employees act responsibly in society. In this chapter, we explore ethics and social responsibility; Appendix A addresses business law, including the Sarbanes-Oxley Act.

The Role of Ethics in Business

You have only to pick up *The Wall Street Journal* or *USA Today* to see examples of the growing concern about legal and ethical issues in business. HealthSouth, for example, has joined the growing list of companies tarnished by accounting improprieties and securities fraud at the turn of the century. Former CEO Richard Scrushy was indicted for allegedly conspiring to inflate the health care firm's reported revenues by $2.7 billion in order to meet shareholder expectations. Although Scrushy pleaded "not guilty" to the 85 criminal charges, 15 former HealthSouth executives have admitted to participating in the deception. If convicted, Scrushy potentially faces

Former U.S. Representative James Trafficant was expelled from Congress and jailed after being convicted of accepting bribes.

650 years in prison, $36 million in fines, and the seizure of $279 million worth of personal assets.[4] Regardless of what an individual believes about a particular action, if society judges it to be unethical or wrong, whether correctly or not, that judgment directly affects the organization's ability to achieve its business goals.[5]

Well-publicized incidents of unethical and illegal activity—ranging from accounting fraud to using the Internet to steal another person's credit-card number, from deceptive advertising of food and diet products to unfair competitive practices in the computer software industry—strengthen the public's perceptions that ethical standards and the level of trust in business need to be raised. Author David Callahan has commented, "Americans who wouldn't so much as shoplift a pack of chewing gum are committing felonies at tax time, betraying the trust of their patients, misleading investors, ripping off their insurance companies, lying to their clients, and much more."[6] Often, such charges start as ethical conflicts but evolve into legal disputes when cooperative conflict resolution cannot be accomplished. For example, Shirley Slesinger Lasswell, whose late husband acquired the rights to Winnie the Pooh and his friends from creator A. A. Milne in 1930, filed a lawsuit against the Walt Disney Company over merchandising rights to the characters. Although Lasswell granted rights to use the character to Walt Disney, she contended that the company cheated her and her family out of millions of dollars in royalties on video sales for two decades. Disney asserted that video sales were not specified in its agreement with Lasswell and declined to pay her a percentage of those sales. A California Superior Court judge dismissed the case after 13 years of negotiations and proceedings, effectively siding with Disney.[6] Indeed, many activities deemed unethical by society have been outlawed through legislation.

However, it is important to understand that business ethics goes beyond legal issues. Ethical conduct builds trust among individuals and in business relationships, which validates and promotes confidence in business relationships. Establishing trust and confidence is much more difficult in organizations that have established reputations for acting unethically. If you were to discover, for example, that a manager had misled you about company benefits when you were hired, your trust and confidence in that company would probably diminish. And, if you learned that a colleague had lied to you about something, you probably would not trust or rely on that person in the future.

Ethical issues are not limited to for-profit organizations. In government, several politicians and some high-ranking officials have been forced to resign in disgrace over ethical indiscretions. For example, James Trafficant of Ohio was expelled from Congress and jailed after being convicted of accepting bribes while serving in the U.S. House of Representatives.[7] Several scientists have been accused of falsifying research data, which could invalidate later research based on their data and jeopardize trust in all scientific research. Bell Labs, for example, fired a scientist for falsifying experiments and misrepresenting data in scientific publications. Jan Hendrik Schon's work on creating tiny, powerful microprocessors seemed poised to advance microprocessor technology and potentially bring yet another Nobel Prize in physics to the award-winning laboratory, a subsidiary of Lucent Technologies.[9] Even sports can be subject to ethical lapses. At many universities, for example, coaches and athletic administrators have been put on administrative leave after allegations of improper recruiting practices by team members came to light.[10] Several other colleges and universities have been put on probation and in some cases given the "death penalty"—complete suspension of their athletic programs—for illegally recruiting or paying players. Thus, whether made in science, politics, or business, most decisions are judged as right or wrong, ethical or unethical. Negative judgments can affect an organization's ability to build relationships with customers and suppliers, attract investors, and retain employees.[11]

Although we will not tell you in this chapter what you ought to do, others—your superiors, co-workers, 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 business.

Recognizing Ethical Issues in Business

Learning to recognize ethical issues is the most important step in understanding business ethics. An **ethical issue** is an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical. In business, such a choice often involves weighing monetary profit against what a person considers appropriate conduct. The best way to judge the ethics of a decision is to look at a situation from a customer's or competitor's viewpoint: Should liquid-diet manufacturers make unsubstantiated claims about their products? Should an engineer agree to divulge her former employer's trade secrets to ensure that she gets a better job with a competitor? Should a salesperson omit facts about a product's poor safety record in his presentation to a customer? Such questions require the decision maker to evaluate the ethics of his or her choice.

ethical issue
an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical

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. For example, if you are a salesperson, when does offering a gift—such as season basketball tickets—to a customer become a bribe rather than just a sales practice? Clearly, 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 an action will be judged as right or wrong by others.

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 elaborately wrapped gift to a prospective client on their first meeting—the gift could be viewed as a bribe. In Japan, however, it is considered impolite *not* to bring a gift. In consideration of various cultures in which it operates, including overseas countries, eBay, the online auction site, prohibits the listing of items connected with hate groups, such as Nazis and the Ku Klux Klan. The company also bans the listing of items associated with "notorious individuals who have committed murder within the past 100 years" (for example, Charles Manson).[12] Experience with the culture in which a business operates is critical to understanding what is ethical or unethical.

To help you understand ethical issues that perplex businesspeople today, we will take a brief look at some of them in this section. The vast number of news-format

TABLE 2.2 Types and Incidences of Observed Misconduct

Type of Conduct Observed	Employees Observing It (%)
Abusive or intimidating behavior toward employees	21
Lying to employees, customers, vendors, or the public	19
Withholding needed information from employees, customers, vendors, or the public	18
Discrimination on the basis of race, color, gender, age, or similar categories	13
Stealing, theft, or related fraud	12
Sexual harassment	11
Falsifying financial records and reports	5
Giving or accepting bribes, kickbacks, or inappropriate gifts	4

Source: Ethics Resource Center, "Major Survey of America's Workers Finds Substantial Improvements in Ethics," press release, May 21, 2003, www.ethics.org/releases/nr_20030521_nbes.html.

investigative programs has increased consumer and employee awareness of organizational misconduct. In addition, the multitude of cable channels and Internet resources has improved the awareness of ethical problems among the general public. The National Business Ethics Survey of 1,500 US employees found that workers witness many instances of ethical misconduct in their organizations (see Table 2.2). The most common types of observed misconduct were lying, withholding information, and abusive/intimidating behavior.[13]

One of the principal causes of unethical behavior in organizations is overly aggressive financial or business objectives. Many of these issues relate to decisions and concerns that managers have to deal with daily. It is not possible to discuss every issue, of course. However, a discussion of a few issues can help you begin to recognize the ethical problems with which businesspersons must deal. Many ethical issues in business can be categorized in the context of their relation with conflicts of interest, fairness and honesty, communications, and business associations.

Conflict of Interest. A conflict of interest exists when a person must choose whether to advance his or her own personal interests or those of others. For example, a manager in a corporation is supposed to ensure that the company is profitable so that its stockholder-owners receive a return on their investment. In other words, the manager has a responsibility to investors. If she instead makes decisions that give her more power or money but do not help the company, then she has a conflict of interest—she is acting to benefit herself at the expense of her company and is not fulfilling her responsibilities. To avoid conflicts of interest, employees must be able to separate their personal financial interests from their business dealings. For example, federal investigators are looking into whether a $1 million donation by Citigroup to the 92nd St. Y nursery school represents a conflict of interest. Jack Grubman, then an analyst for Salomon Smith Barney, upgraded his rating of AT&T's stock after Sanford Weill, CEO of Citigroup (the parent company of Salomon Smith Barney), agreed to use his influence to help Grubman's twins gain admission to the elite Manhattan nursery school. Grubman denied elevating his rating for AT&T's stock for a quid pro quo, but his children were enrolled.[14]

bribes
payments, gifts, or special favors intended to influence the outcome of a decision

As mentioned earlier, it is considered improper to give or accept **bribes**—payments, gifts, or special favors intended to influence the outcome of a decision. A

TABLE 2.3

Bribe Payers Index

Rank	Country	Score*	Rank	Country	Score*
1	Australia	8.5	9	Germany	6.3
2	Sweden**	8.4	9	Singapore	6.3
2	Switzerland	8.4	11	Spain	5.8
4	Austria	8.2	12	France	5.5
5	Canada	8.1	13	United States	5.3
6	Netherlands	7.8	13	Japan	5.3
6	Belgium	7.8	15	Malaysia	4.3
8	United Kingdom	6.9	15	Hong Kong	4.3

*A perfect score, indicating zero perceived propensity to pay bribes, is 10.0.

**The same number ranking indicates a tie.

Source: "Transparency International Bribe Payers Index 2002," *Transparency International,* May 14, 2002, www.transparency.org/cpi/2002/bpi2002.en.html.

bribe is a conflict of interest because it benefits an individual at the expense of an organization or society. Companies that do business overseas should be aware that bribes are a significant ethical issue and are in fact illegal in many countries. For example, three former executives of IBM Korea went to jail in Seoul after being convicted of using bribes to win orders for computer parts.[15] Bribery is more prevalent in some countries than in others. Transparency International has developed a Bribe Payers Index (Table 2.3) to indicate the degree to which international companies are engaging in paying bribes in specific markets. The index reveals that on a scale of 0 to 10, companies are highly likely to pay bribes to win or retain business in Russia.[16]

Fairness and Honesty. Fairness and honesty are at the heart of business ethics and relate to the general values of decision makers. At a minimum, businesspersons are expected to follow all applicable laws and regulations. But beyond obeying the law, they are expected not to harm customers, employees, clients, or competitors knowingly through deception, misrepresentation, coercion, or discrimination. Fuji and Kodak, for example, have waged a prolonged legal battle against Jazz Photo Corporation and other firms that recycle disposable cameras by patching them with electrical tape, inserting new film, putting new labels on them, and reselling them for less than Fuji and Kodak's new disposable cameras. Aside from the fact that many consumers may not realize that these "single-use" cameras have been used several times, Fuji contends that the recyclers are violating its patents on disposable cameras. A federal jury sided with Fuji and ordered Jazz Photo to pay the Japanese firm $25 million in damages for lost profits and royalties.[17]

One aspect of fairness relates to competition. Although numerous laws have been passed to foster competition and make monopolistic practices illegal, companies sometimes gain control over markets by using questionable practices that harm competition. Independent ranchers, for example, filed suit against Tyson Foods, accusing the chicken and beef producer of using its contracts with cattle feedyards to illegally depress cattle prices. The federal jury recommended that Tyson pay $1.28 billion in damages; the company planned to appeal the decision.[18]

Another aspect of fairness and honesty relates to disclosure of potential harm caused by product use. Mitsubishi Motors, Japan's number-four automaker, faced criminal charges and negative publicity after executives admitted that the company

Consider Ethics and Social Responsibility

KFC Criticized for Promoting Health Benefits of Fried Chicken

What foods come to mind when you think of a healthy diet—whole grains, fresh vegetables, and . . . fried chicken? That's what a short-lived advertising campaign from KFC, previously known as Kentucky Fried Chicken, asked consumers to accept. The ads declared that the Colonel's chicken breast is less fatty than Burger King's Whopper and can work well as part of a healthy, balanced diet. In one commercial, a young man tells a friend that the secret behind his weight loss is eating fried chicken. In another ad, a woman brings home a bucket of chicken and asks her husband, "Remember how we talked about eating better? Well, it starts today." Although the ads carried disclaimers that fried chicken is *not* low in fat, sodium, or cholesterol, the KFC message was clear—fried chicken is good for you, so don't feel guilty about enjoying it.

Critics immediately attacked the campaign, asserting that the ads were misleading and irresponsible. Strong criticism in particular came from the Children's Advertising Review Unit, a watchdog group that condemned the airing of the commercials during children's programming because they were likely to convey the wrong idea about the overall nutritional value of fried chicken to children. After intense scrutiny from the Federal Trade Commission and other consumer interest groups, KFC pulled the ads.

KFC's campaign fueled an ongoing debate surrounding the ethics of marketing the health value of foods to consumers who may be all too eager to believe claims. With the problem of obesity now described as "epidemic" in the United States and with many more Americans trying to lose weight, it's no surprise that fast-food companies are trying to position their products as consistent with a healthy lifestyle. McDonalds has done so by promoting its salads, while Subway adopted Jared Fogle as its "weight-loss hero" in its advertising campaigns. The question is whether marketers that claim to offer "healthy" foods are helping or hindering consumers in achieving their goals to eat better.

There's some evidence to support the benefits of truthful health-food claims. For example, data from the ready-to-eat cereal market shows that allowing manufacturers to make truthful health claims resulted in greater health consciousness and improved diets among consumers, as well as more healthful product innovations in the industry. On the other hand, are manufacturers unfairly capitalizing on the health concerns of consumers, or even perpetuating poor eating habits in some cases? Although KFC offered truthful statements about the fat content of its chicken breasts, its overall message was to promote fried chicken as a healthy product—a statement that any dietician would be quick to debunk. To avoid legal and ethical pitfalls, marketers should ensure that health claims on their food products are not only truthful, but that they also steer clear of the potential to mislead consumers.[23]

Discussion Questions

1. Why is it an ethical issue for KFC to promote "health benefits" of fried chicken?
2. Do you think that the advertising of fast food is contributing to health issues in the United States? Why?
3. How could KFC present more useful health information about its products?

had systematically covered up customer complaints about tens of thousands of defective automobiles over a 20-year period in order to avoid expensive and embarrassing product recalls.[19]

Dishonesty has become a significant problem in the United States. As reported earlier in this chapter, lying was the most observed form of misconduct in the National Business Ethics Survey. Dishonesty is not found only in business, however. A study by the Josephson Institute of Ethics reported that 7 out of 10 students admitted to cheating on a test at least once in the last year, and 92 percent lied to their parents in the past year.[20]

Communications. Communications is another area in which ethical concerns may arise. False and misleading advertising, as well as deceptive personal-selling tactics, anger consumers and can lead to the failure of a business. Truthfulness about product safety and quality are also important to consumers. Claims about dietary supplements and weight-loss products can be particularly problematic. For example, the Fountain of Youth Group, LLC, and its founder, Edita Kaye, settled charges brought by the Federal Trade Commission that the company made unsubstantiated claims about its weight-loss products. Under the settlement, the firm agreed to stop making specific weight-loss and health claims about its products without competent scientific proof. It was also fined $6 million, but that fine was suspended because the firm lacked the resources to pay it.[21]

Some companies fail to provide enough information for consumers about differences or similarities between products. For example, driven by high prices for medicines, many consumers are turning to Canadian, Mexican, and overseas Internet sources for drugs to treat a variety of illnesses and conditions. However, research suggests that a significant percentage of these imported pharmaceuticals may not actually contain the labeled drug, and the counterfeit drugs could even be harmful to those who take them.[22]

Another important aspect of communications that may raise ethical concerns relates to product labeling. The U.S. Surgeon General currently requires cigarette manufacturers to indicate clearly on cigarette packaging that smoking cigarettes is harmful to the smoker's health. However, labeling of other products raises ethical questions when it threatens basic rights, such as freedom of speech and expression. This is the heart of the controversy surrounding the movement to require warning labels on movies and videogames, rating their content, language, and appropriate audience age. Although people in the entertainment industry believe that such labeling violates their First Amendment right to freedom of expression, other consumers—particularly parents—believe that such labeling is needed to protect children from harmful influences. Similarly, alcoholic beverage and cigarette manufacturers have argued that a total ban on cigarette and alcohol advertisements violates the First Amendment. Internet regulation, particularly that designed to protect children and the elderly, is on the forefront in consumer protection legislation. Because of the debate surrounding the acceptability of these business activities, they remain major ethical issues.

Business Relationships. The behavior of businesspersons toward customers, suppliers, and others in their workplace may also generate ethical concerns. Ethical behavior within a business involves keeping company secrets, meeting obligations and responsibilities, and avoiding undue pressure that may force others to act unethically.

Managers, in particular, because of the authority of their position, have the opportunity to influence employees' actions. For example, a manager can influence employees to use pirated computer software to save costs. The use of illegal software puts the employee and the company at legal risk, but employees may feel pressured to do so by their superior's authority. The National Business Ethics Survey found that employees who feel pressure to compromise ethical standards view supervisors and top managers as the greatest source of such pressure.[24]

It is the responsibility of managers to create a work environment that helps the organization achieve its objectives and fulfill its responsibilities. However, the methods that managers use to enforce these responsibilities should not compromise employee rights.

In May 2002, members of Enron's board of directors were questioned by the U.S. Senate. The company had collapsed after management and accounting leaders inflated profit numbers by $600 million and hid debts and exaggerated revenues in order to continue attracting investors—many of whom were their own employees. The CEO at the time, Kenneth Lay, had received a compensation of $152.7 million in payments and stock—11,000 times the amount of severance paid to the 4,000 laid-off workers after the bankruptcy. Lay chose to invoke the Fifth Amendment when questioned by the Senate.

Consider Ethics and Social Responsibility

Qwest Struggles with Misconduct

Qwest Communications is the local telephone company for 14 states extending from Minnesota west to Washington and southwest to Arizona and New Mexico. Four former executives of the company—the chief financial officer, a senior vice president, the assistant controller, and a vice president—were indicted on criminal charges of fraud. The four were accused of devising a scheme to create more than $33 million in revenue, violating Securities and Exchange Commission rules by incorrectly reporting a purchase order with the Arizona School Facilities Board. According to the government, Qwest sold equipment to the statewide school computer network, billed the customer, but then held the merchandise for later delivery. According to government officials, the executives took this action to help Qwest meet its numbers during a difficult time for the company. According to the chairman of the SEC, "Simply put, the defendants couldn't make the numbers work, so they cheated." The Justice Department said the company knowingly filed false documents to hide its actions. The SEC also sought civil penalties against eight former employees, including the loss of salaries and bonuses during the time of the alleged misdeed. This was not the first time the company has been in trouble.

In 2002, Qwest chief executive Joseph Nacchio resigned under pressure. In his public testimony, Nacchio said that he talked with founder and director Philip Anschutz about all major decisions. Congressional investigators then interviewed Anschutz about his role in the company's day-to-day affairs. Qwest had been investigated by the Justice Department and the Securities and Exchange Commission and was the subject of congressional hearings into its financial practices. The investigations probed whether Qwest artificially inflated its revenues by swapping network capacity with another scandal-plagued company, Global Crossing Ltd. The company restated its financial reports for 1999 to 2001 because of accounting errors and said it would erase $950 million from improperly booked swaps. Still attempting to clean up its image and its books, Qwest announced in February 2003 that $531 million in revenue that was booked prematurely in the last two years would be deferred.

In 2003, Qwest was fined $20.3 million by California regulators for switching customers' long-distance accounts without their permission (a practice known as "slamming") and adding unauthorized charges to their bills (known as "cramming"). At that time, it was the largest fine ever levied against Qwest by a regulatory agency, but Minnesota officials were considering an even larger one. The administrative judge in California cited 3,583 cases of slamming and 4,871 cases of cramming. Qwest said it had disciplined sales agencies that committed the unlawful practices and had introduced new procedures to prevent them in the future. California utilities commissioners took Qwest's efforts into consideration before levying the fine, but the commission president said, "This company fixed its systems only after regulators began investigating." The commission also required the company to provide refunds to the affected customers within ninety days.[26]

Discussion Questions

1. Why do you think top managers at Qwest would devise a scheme to create nonexistent revenue?
2. Why would a large company switch customers' long-distance accounts without their permission?
3. Discuss why regulation is necessary to keep companies acting responsibly?

Organizational pressures may encourage a person to engage in activities that he or she might otherwise view as unethical, such as invading others' privacy or stealing a competitor's secrets. For example, Betty Vinson, an accounting executive at WorldCom, protested when her superiors asked her to make improper accounting entries in order to cover up the company's deteriorating financial condition. She acquiesced only after being told that it was the only way to save the troubled company. She, along with several other WorldCom accountants, pleaded guilty to conspiracy and fraud charges related to WorldCom's bankruptcy after the accounting improprieties came to light.[25] Or the firm may provide only vague or lax supervision on ethical issues, providing the opportunity for misconduct. Managers who offer no ethical direction to employees create many opportunities for manipulation, dishonesty, and conflicts of interest.

plagiarism
the act of taking someone else's work and presenting it as your own without mentioning the source

Plagiarism—taking someone else's work and presenting it as your own without mentioning the source—is another ethical issue. As a student, you may be familiar with plagiarism in school; for example, copying someone else's term paper or quoting from a published work or Internet source without acknowledging it. In business,

Solve the Dilemma

Customer Privacy

Checkers Pizza was one of the first to offer home delivery service, with overwhelming success. However, the major pizza chains soon followed suit, taking away Checkers's competitive edge. Jon Barnard, Checkers's founder and co-owner, needed a new gimmick to beat the competition. He decided to develop a computerized information database that would make Checkers the most efficient competitor and provide insight into consumer buying behavior at the same time. Under the system, telephone customers were asked their phone number; if they had ordered from Checkers before, their address and previous order information came up on the computer screen.

After successfully testing the new system, Barnard put the computerized order network in place in all Checkers outlets. After three months of success, he decided to give an award to the family that ate the most Checkers pizza. Through the tracking system, the company identified the biggest customer, who had ordered a pizza every weekday for the past three months (63 pizzas). The company put together a program to surprise the family with an award, free-food certificates, and a news story announcing the award. As Barnard began to plan for the event, however, he began to think that maybe the family might not want all the attention and publicity.

Discussion Questions

1. What are some of the ethical issues in giving customers an award for consumption behavior without notifying them first?
2. Do you see this as a potential violation of privacy? Explain.
3. How would you handle the situation if you were Barnard?

TABLE 2.4

Questions to Consider in Determining Whether an Action Is Ethical

Are there any potential legal restrictions or violations that could result from the action?
Does your company have a specific code of ethics or policy on the action?
Is this activity customary in your industry? Are there any industry trade groups that provide guidelines or codes of conduct that address this issue?
Would this activity be accepted by your co-workers? Will your decision or action withstand open discussion with co-workers and managers and survive untarnished?
How does this activity fit with your own beliefs and values?

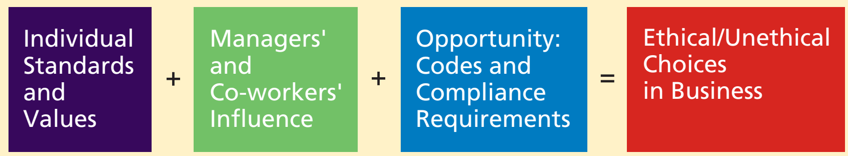
an ethical issue arises when an employee copies reports or takes the work or ideas of others and presents it as his or her own. At *USA Today*, for example, an internal investigation into the work of veteran reporter Jack Kelley identified dozens of stories in which Kelley appeared to have plagiarized material from competing newspapers. The investigation also uncovered evidence Kelley fabricated significant portions of at least eight major stories and conspired to cover up his lapses in judgment. The newspaper later apologized to its readers, and Kelley resigned.[27] A manager attempting to take credit for a subordinate's ideas is engaging in another type of plagiarism.

Making Decisions about Ethical Issues

Although we've presented a variety of ethical issues that may arise in business, it can be difficult to recognize specific ethical issues in practice. Whether a decision maker recognizes an issue as an ethical one often depends on the issue itself. Managers, for example, 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 importance of an ethical issue substantially affects choices, and only a few issues receive scrutiny, while most receive no attention at all.[28]

Table 2.4 lists some questions you may want to ask yourself and others when trying to determine whether an action is ethical. Open discussion of ethical issues does not eliminate ethical problems, but it does promote both trust and learning in an

FIGURE 2.1
Three Factors that Influence Business Ethics



organization.[29] When people feel that they cannot discuss what they are doing with their co-workers or superiors, there is a good chance that an ethical issue exists. Once a person has recognized an ethical issue and can openly discuss it with others, he or she has begun the process of resolving an ethical issue.

Improving Ethical Behavior in Business

Understanding how people make ethical choices and what prompts a person to act unethically may reverse the current trend toward unethical behavior in business. Ethical decisions in an organization are influenced by three key factors: individual moral standards, the influence of managers and co-workers, and the opportunity to engage in misconduct (Figure 2.1). While you have great control over your personal ethics outside the workplace, your co-workers and superiors exert significant control over your choices at work through authority and example. In fact, the activities and examples set by co-workers, along with rules and policies established by the firm, are critical in gaining consistent ethical compliance in an organization. If the company fails to provide good examples and direction for appropriate conduct, confusion and conflict will develop and result in the opportunity for misconduct. If your boss or co-workers leave work early, you may be tempted to do so as well. If you see co-workers making personal long-distance phone calls at work and charging them to the company, then you may be more likely to do so also. In addition, having sound personal values contributes to an ethical workplace.

Because ethical issues often emerge from conflict, it is useful to examine the causes of ethical conflict. Business managers and employees often experience some tension between their own ethical beliefs and their obligations to the organizations in which they work. Many employees utilize different ethical standards at work than they do at home. This conflict increases when employees feel that their company is encouraging unethical conduct or exerting pressure on them to engage in it.

It is difficult for employees to determine what conduct is acceptable within a company if the firm does not have ethics policies and standards. And without such policies and standards, employees may base decisions on how their peers and superiors behave. Professional **codes of ethics** are formalized rules and standards that describe what the company expects of its employees. Codes of ethics do not have to be so detailed that they take into account every situation, but they should provide guidelines and principles that can help employees achieve organizational objectives and address risks in an acceptable and ethical way. The development of a code of ethics should include not only a firm's executives and board of directors, but also legal staff and employees from all areas of a firm.[30] Table 2.5 lists some key things to consider when developing a code of ethics.

codes of ethics
formalized rules and standards that describe what a company expects of its employees

Codes of ethics, policies on ethics, and ethics training programs advance ethical behavior because they prescribe which activities are acceptable and which are not, and they limit the opportunity for misconduct by providing punishments for viola-

TABLE 2.5
Key Things to Consider in Developing a Code of Ethics

- Create a team to assist with the process of developing the code (include management and nonmanagement employees from across departments and functions).
- Solicit input from employees from different departments, functions, and regions to compile a list of common questions and answers to include in the code document.
- Make certain that the headings of the code sections can be easily understood by all employees.
- Avoid referencing specific U.S. laws and regulations or those of specific countries, particularly for codes that will be distributed to employees in multiple regions.
- Hold employee group meetings on a complete draft version (including graphics and pictures) of the text using language that everyone can understand.
- Inform employees that they will receive a copy of the code during an introduction session.
- Let all employees know that they will receive future ethics training which will, in part, cover the important information contained in the code document.

Source: Adapted from William Miller, "Implementing an Organizational Code of Ethics," *International Business Ethics Review* 7 (Winter 2004), pp. 1, 6–10.

tions of the rules and standards. According to the National Business Ethics Survey (NBES), employees in organizations that have written standards of conduct, ethics training, ethics offices or hotlines, and systems for anonymous reporting of misconduct are more likely to report misconduct when they observe it. The survey also found that such programs are associated with higher employee perceptions that they will be held accountable for ethical infractions.[31] The enforcement of such codes and policies through rewards and punishments increases the acceptance of ethical standards by employees.

whistleblowing
the act of an employee exposing an employer's wrongdoing to outsiders, such as the media or government regulatory agencies

One of the most important components of an ethics program is a means through which employees can report observed misconduct anonymously. The NBES found that although employees are increasingly reporting illegal and unethical activities they observe in the workplace, 44 percent of surveyed employees indicated they are unwilling to report misconduct because they fear that no corrective action will be taken or that their report will not remain confidential.[32] The lack of anonymous reporting mechanisms may encourage **whistleblowing,** which occurs when an employee exposes an employer's wrongdoing to outsiders, such as the media or government regulatory agencies. However, more companies are establishing programs to encourage employees to report illegal or unethical practices internally so that they can take steps to remedy problems before they result in legal action or generate negative publicity. In recent years, whistleblowers have provided crucial evidence documenting illegal actions at a number of companies. At Enron, for example, Sherron Watkins, a vice president, warned the firm's CEO, Ken Lay, that the energy company was using improper accounting procedures. Soon after, Watkins testified before Congress that Enron had concealed billions of dollars in debt through a complex scheme of off-balance-sheet partnerships.[33] Enron ultimately went bankrupt when its improprieties and high levels of debt were exposed. Unfortunately, whistleblowers are often treated negatively in organizations. The

Enron Executive Sherron Watkins reported financial misconduct as a whistleblower.

government is rewarding firms that encourage employees to report misconduct—with reduced fines and penalties when violations occur.

The current trend is to move away from legally based ethical initiatives in organizations to cultural- or integrity-based initiatives that make ethics a part of core organizational values. Organizations recognize that effective business ethics programs are good for business performance. Firms that develop higher levels of trust function more efficiently and effectively and avoid damaged company reputations and product images. Organizational ethics initiatives have been supportive of many positive and diverse organizational objectives, such as profitability, hiring, employee satisfaction, and customer loyalty.[34] Conversely, lack of organizational ethics initiatives and the absence of workplace values such as honesty, trust, and integrity can have a negative impact on organizational objectives. According to one report on employee loyalty and work practices, 79 percent of employees who questioned their bosses' integrity indicated that they felt uncommitted or were likely to quit soon.[35]

The Nature of Social Responsibility

There are four dimensions of social responsibility: economic, legal, ethical, and voluntary (including philanthropic) (Figure 2.2).[36] Earning profits is the economic foundation of the pyramid in Figure 2.2, and complying with the law is the next step. However a business whose *sole* objective is to maximize profits is not likely to consider its social responsibility, although its activities will probably be legal. (We looked at ethical responsibilities in the first half of this chapter.) Finally, voluntary responsibilities are additional activities that may not be required but which promote hu-

FIGURE 2.2

The Pyramid of Social Responsibility

Source: Reprinted with permission from A. B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons,* July/August 1991. Copyright © 1991 by the Board of Trustees at Indiana University, Kelley School of Business.

man welfare or goodwill. Legal and economic concerns have long been acknowledged in business, but voluntary and ethical issues are more recent concerns.

corporate citizenship the extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders

Corporate citizenship is the extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their various stakeholders. It involves the activities and organizational processes adopted by businesses to meet their social responsibilities. A commitment to corporate citizenship by a firm indicates a strategic focus on fulfilling the social responsibilities expected of it by its stakeholders. Corporate citizenship involves action and measurement of the extent to which a firm embraces the corporate citizenship philosophy and then follows through by implementing citizenship and social responsibility initiatives. For example, ChevronTexaco, a multinational provider of petroleum and energy products, communicates its values in a document called "The ChevronTexaco Way." This document serves as an ethical foundation and guides the company's conduct around the world. For example, the firm has signed the Global Sullivan Principles, an international, voluntary code of conduct for corporations around the world; contributed to environmental causes such as the World Wildlife Fund and The Nature Conservancy; and donated funds and resources to important social causes around the world. The corporation also publishes a regular report on its social responsibility conduct and initiatives.[37]

Most companies today consider being socially responsible a cost of doing business. Eddie Bauer created a Corporate Social Responsibility (CSR) department to coordinate its social responsibility efforts. The department focuses on five areas: global labor practices, environmental affairs, sustainable business practices, governmental affairs, and public affairs (including philanthropy and volunteerism). The company's good corporate citizenship enhances its bottom line. According to John Thomas, vice president of the CSR department, "Customers are making more learned decisions today on how they shop and who they make their purchases from. Those decisions, I believe, are made on the basis of what a company stands for, what its values are, as well as what its contributions to the community are."[38] *Business Ethics* magazine publishes an annual list of the 100 best American corporate citizens based on service to seven stakeholder groups: stockholders, local communities, minorities, employees, global stakeholders, customers, and the environment. Table 2.6 shows the top 20 from that list.

TABLE 2.6

Best Corporate Citizens

1	Fannie Mae	11	Imation
2	Procter & Gamble	12	IBM
3	Intel Corporation	13	Nuveen Investments
4	St. Paul Companies	14	Herman Miller
5	Green Mountain Coffee Roasters	15	J. M. Smucker
6	Deere & Company	16	Safeco
7	Avon Products	17	Timberland
8	Hewlett-Packard	18	Zimmer Holdings
9	Agilent Technologies	19	Cisco
10	Ecobab	20	3M

Source: Peter Asmus, with Sandra Waddock and Samuel Graves, "100 Best Corporate Citizens of 2004," *Business Ethics,* (n.d.) www.business-ethics.com/100best.htm (accessed June 9, 2004).

TABLE 2.7
The Arguments For and Against Social Responsibility

For:
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 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 businesses can prevent increased government regulation.
5. Social responsibility is necessary to ensure economic survival: If businesses want 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.
Against:
1. It sidetracks managers from the primary goal 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 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.

Although the concept of social responsibility is receiving more and more attention, it is still not universally accepted. Table 2.7 lists some of the arguments for and against social responsibility.

Social Responsibility Issues

As with ethics, managers consider social responsibility on a daily basis as they deal with real issues. Among the many social issues that managers must consider are their firms' relations with owners and stockholders, employees, consumers, the environment, and the community.

Social responsibility is a dynamic area with issues changing constantly in response to society's desires. There is much evidence that social responsibility is associated with improved business performance. Consumers are refusing to buy from businesses that receive publicity about misconduct. A number of studies have found a direct relationship between social responsibility and profitability, as well as that social responsibility is linked to employee commitment and customer loyalty—major concerns of any firm trying to increase profits.[39] 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 Stockholders. Businesses must first be responsible to their owners, 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 investors, 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. In short, the business must maximize the owners' investment in the firm.

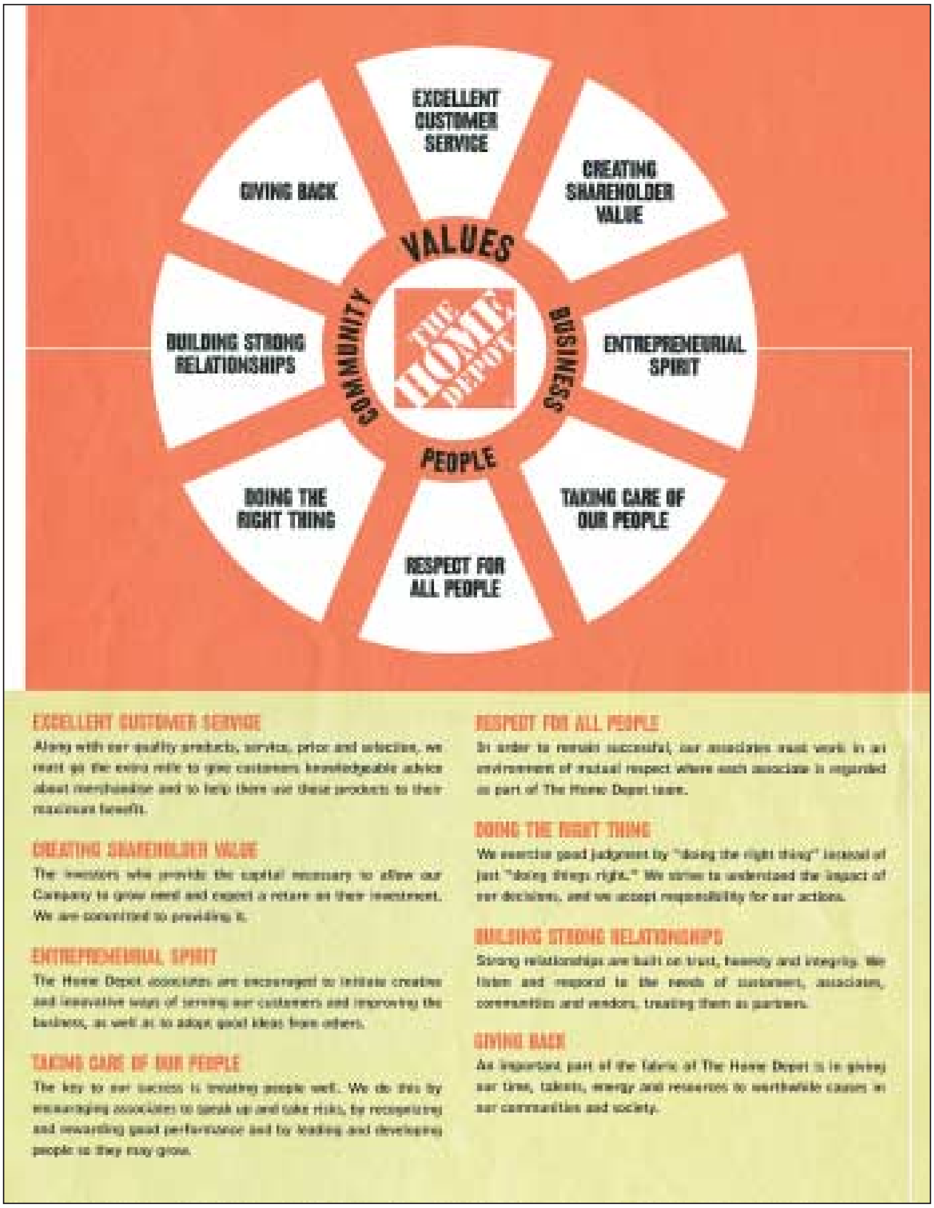
Employee Relations. Another issue of importance to a business is its responsibilities to employees, for without employees a business cannot carry out its goals. Employees expect businesses to provide a safe workplace, pay them adequately for their work, and tell them what is happening in their company. They want employers to listen to their grievances and treat them fairly. When employees at Ramtech Building Systems, Inc., approached management with their concerns about cursing used in the company's manufacturing facilities, a Language Code of Ethics was instituted. Many employees indicate that obscene language is common in the workplace, particularly in high-stress jobs. For example, 43 percent of the 12,000 U.S. Postal Service employees surveyed recently reported being cursed at in the workplace.[40] Companies are adjusting their policies and offering training to clean up employee language.

Of a more serious nature, a growing employee-relations concern for multinational companies is the spread of AIDS and its effect on the workforce. DaimlerChrysler South Africa (DCSA), for example, provides HIV/AIDS testing, free anti-AIDS drugs, and additional treatment and support for its 6,000 South African employees and their families in an effort to combat the disease, which has infected about 9 percent of DCSA's employees there. The company spends an estimated $420,000 a year on antiretroviral drugs. Other German automakers, including Volkswagen and BMW, have launched similar programs to cover their employees in South Africa, where 600 people die every day from the disease. Many U.S. companies have set up AIDS-prevention and treatment programs for their employees in Africa as well. Companies as diverse as Coca-Cola (the largest private employer on the African continent), MTV, American Express, Nike, and ExxonMobil have also joined the Global Business Coalition to help fight the epidemic.[41]

Congress has passed several laws regulating safety in the workplace, many of which are enforced by 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 are a critical ingredient in their success, and many strive to go beyond what is expected of them by the law. Healthy, satisfied employees supply more than just labor to their employers, however. Employers are beginning to realize 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 sex, age, race, religion, or nationality. Women and minorities 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, as many as 500,000 female employees of Wal-Mart filed a class-action discrimination lawsuit accusing the giant retailer of paying them lower wages and salaries than it does men in comparable positions. Pretrial proceedings

Home Depot acknowledges the importance of all stakeholders in operating its business.



not only uncovered discrepancies between the pay of men and women but also the fact that men dominate higher-paying store manager positions while women occupy more than 90 percent of cashier jobs, most of which pay about $14,000 a year. Wal-Mart faces fines and penalties in the million of dollars if found guilty of sexual discrimination.[42] Women, who continue to bear most child-rearing responsibilities, often experience conflict between those responsibilities and their duties as employees. Consequently, day care has become a major employment issue for women, and more companies are providing day-care facilities as part of their effort to recruit and advance women in the workforce. In addition, companies are considering alternative scheduling such as flex-time and job sharing to accommodate employee concerns.

Telecommuting has grown significantly over the past 5 to 10 years, as well. Many Americans today believe business has a social obligation to provide special opportunities for women and minorities to improve their standing in society.

Consumer Relations. A critical issue in business today is business's responsibility to customers, who look to business to provide them with satisfying, safe products and to respect their rights as consumers. The activities that independent individuals, groups, and organizations undertake 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.

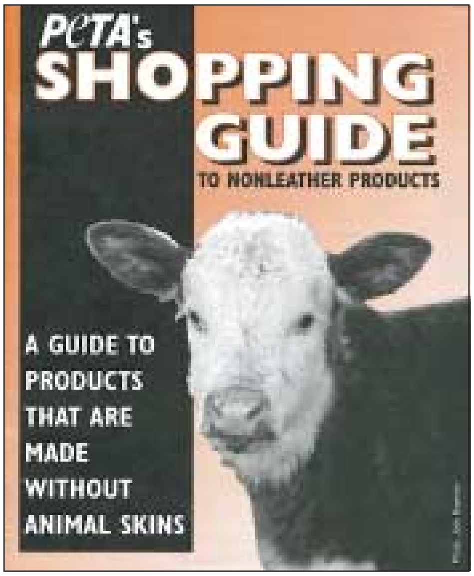
consumerism the activities that independent individuals, groups, and organizations undertake to protect their rights as consumers

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 a 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 all consumers. The right to safety also means businesses must provide a safe place for consumers to shop. In recent years, many large retailers have been under increasing pressure to improve safety in their large warehouse-type stores. At Home Depot, for example, three consumer deaths and numerous serious injuries have been caused by falling merchandise. One lawsuit brought against the company over injuries received in one of its stores resulted in a $1.5 million judgment. To help prevent further deaths, injuries, and litigation, Home Depot now has a corporate safety officer and has hired 130 safety managers to monitor store compliance with new safety measures.[43]

The *right to be informed* gives consumers the freedom to review complete information about a product before they buy. This means that detailed information about ingredients, risks, and instructions for use are to be printed on labels and packages. The *right to choose* ensures that consumers have access to a variety of products 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. Some consumers are not being given the right to choose. Many are being billed for products and services they never ordered. According to the Federal Trade Commission, complaints about unordered merchandise and services jumped 169 percent over a two-year period. Burdine's, a department store chain, was investigated for failing to notify customers it was enrolling them in a company buying club. Fleet Mortgage was sued for adding fees for unrequested insurance to customers' mortgage bills, and HCI Direct was sued by 11 states for charging customers for panty hose samples they had never ordered.[44] The *right to be heard* assures consumers that their interests will receive full and sympathetic consideration when the government formulates policy. It also assures the fair treatment of consumers who voice complaints about a purchased product.

The role of the Federal Trade Commission's Bureau of Consumer Protection is to protect consumers against unfair, deceptive, or fraudulent practices. The bureau, which enforces a variety of consumer protection laws, is divided into five divisions. The Division of Enforcement monitors compliance with and investigates violations of laws, including unfulfilled holiday delivery promises by online shopping sites, employment opportunities fraud, scholarship scams, misleading advertising for health care products, and more.

Environmental Issues. Environmental responsibility has become a leading issue as both business and the public acknowledge the damage done to the environment in the past. Today's consumers are increasingly demanding that businesses take a greater responsibility for their actions and how they impact the environment.



Organizations such as PETA address animal rights issues.

Animal Rights. One area of environmental concern in society today is animal rights. Probably the most controversial business practice in this area is the testing of cosmetics and drugs on animals who may be injured or killed as a result. Animal-rights activists, such as People for the Ethical Treatment of Animals, say such research is morally wrong because it harms living creatures. Consumers who share this sentiment may boycott companies that test products on animals and take their business instead to companies such as The Body Shop and John Paul Mitchell Systems, which do not use animal testing. However, researchers in the cosmetics and pharmaceutical industries argue that animal testing is necessary to prevent harm to human beings who will eventually use the products. Business practices that harm endangered wildlife and their habitats are another environmental issue.

Pollution. Another major issue in the area of environmental responsibility is pollution. Water pollution results from dumping toxic chemicals and raw sewage into rivers and oceans, oil spills, and 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 run off into water supplies with each rainfall. Water pollution problems are especially notable in heavily industrialized areas. Medical waste—such as used syringes, vials of blood, and AIDS-contaminated materials—has turned up on beaches in New York, New Jersey, and Massachusetts, as well as other places. Society is demanding that water supplies be clean and healthful to reduce the potential danger from these substances.

Air pollution is usually the result of smoke and other pollutants 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 some chemical compounds emitted by 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 global warming, in which carbon dioxide collects in the earth's atmosphere, trapping the sun's heat and preventing the earth's surface from cooling. As a result, the automobile industry is facing increasing pressure to develop affordable, fuel-efficient automobiles that do not contribute to air pollution problems. Toyota, for example, introduced the Prius, a hybrid vehicle that uses electric motors to augment its internal combustion engines, improving its fuel efficiency without a reduction in power. Ford and Dodge also planned to introduce competing hybrid vehicles.[45]

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. Land pollution results from the dumping of residential and industrial waste, strip mining, forest fires, and poor forest conservation. In Brazil and other South American countries, rain forests are being destroyed—at a rate of one acre per minute—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 rain forest 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. Consumers contribute approximately 1,500 pounds of garbage per person each year to landfills. One specific solid waste problem is being created by rapid innovations in computer hardware that make many computers obsolete after just 18 months. By 2005, 350 million computers will have reached obsolescence, and at least 55 million are expected to end up in landfills.[46] Computers contain such toxic substances as lead, mercury, and polyvinyl chloride, which can leach into the soil and contaminate groundwater when disposed of improperly. Dell Computer, the leading seller of personal computers, has come under increasing criticism from environmental groups for failing to adopt a leadership role in reducing the use of toxic materials in the manufacture of computers and in recycling used computer parts. The company has also encountered criticism for using prison labor to handle the recycling it does do. Several states are considering legislation that would require computers to be recycled at the same levels as in Europe.[47]

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, including Walt Disney Company, Chevron, and Scott Paper, have created a new executive position—a vice president of environmental affairs—to help them achieve their business goals in an environmentally responsible manner. A recent survey indicated that 83.5 percent of *Fortune* 500 companies have a written environmental policy, 74.7 percent engage in recycling efforts, and 69.7 percent have made investments in waste-reduction efforts.[48] Many companies, including Alcoa, Dow Chemical, Phillips Petroleum, and Raytheon, now link executive pay to environmental performance.[49]

Did You Know? In one year, Americans generated 230 million tons of trash and recycled 23.5 percent of it.[50]

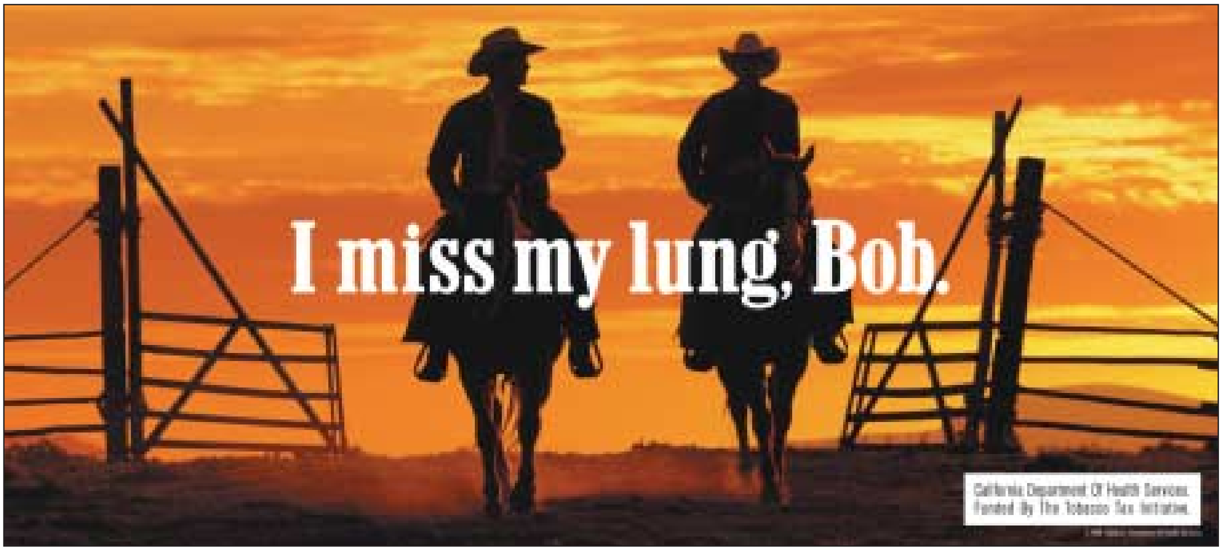
Many firms are trying to eliminate wasteful practices, the emission of pollutants, and/or the use of harmful chemicals from their manufacturing processes. Other companies are seeking ways to improve their products. Utility providers, for example, are increasingly supplementing their services with alternative energy sources, including solar, wind, and geothermal power. In Austin, Texas, local utility customers can even elect to purchase electricity from green sources—primarily wind power—for a few extra dollars a month. The city-owned utility's award-winning GreenChoice program includes many small and large businesses among its customers.[51] Indeed, a growing number of businesses are choosing "green power" sources where available. Kinko's, for example, encourages individual copy-center stores to purchase their electricity from renewable sources, and 45 stores now purchase 100 percent of their electricity from certified green power sources.[52] Many businesses have

The new hybrid gas/electric cars, like the Prius from Toyota in this ad, present a revolutionary response to environmental issues caused by vehicle emissions. Because they are part gas/part electric, give off almost no emissions, and go from zero to 60 in a reasonable amount of time (according to this ad, the Prius does it in just about 10 seconds), they could be the answer to a more environmentally-friendly mode of transportation.

turned to *recycling,* the reprocessing of materials—aluminum, paper, glass, and some plastic—for reuse. Such efforts to make products, packaging, and processes more environmentally friendly have been labeled "green" business or marketing by the public and media. Lumber products at Home Depot may carry a seal from the Forest Stewardship Council to indicate that they were harvested from sustainable forests using environmentally friendly methods.[53] Likewise, most Chiquita bananas are certified through the Better Banana Project as having been grown with more environmentally and labor-friendly practices.[54]

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 and heating oil. People do not want to contribute to the growing garbage-disposal problem, but they often refuse to pay more for "green" products packaged in an environmentally friendly manner, to recycle as much of their own waste as possible, or to permit the building of additional waste-disposal facilities (the "not in my backyard," or NIMBY, syndrome). Managers must coordinate environmental goals with other social and economic ones.

Community Relations. A final, yet very significant, issue for businesses concerns their responsibilities to the general welfare of the communities and societies in which they operate. Many businesses simply want to make their communities better places for everyone to live and work. The most common way that businesses exercise their community responsibility is through donations to local and national charitable organizations. Corporations contributed more than $12 billion to environmental and social causes last year.[55] For example, Safeway, the nation's fourth-largest grocer, has donated millions of dollars to organizations involved in medical research, such as Easter Seals and the Juvenile Diabetes Research Foundation International. The company's employees have also raised funds to support social causes of interest.[56] Avon's Breast Cancer Awareness Crusade has helped raise $300 million to fund community-based breast cancer education and early detection services. Avon, a marketer of women's cosmetics, is also known for employing a large number of women and promoting them to top management; the firm has more female top managers (86 percent) than any other *Fortune* 500 company.[57] Even small companies participate in philanthropy through



Funded by The Tobacco Tax Initiative, the California Department of Health Services promotes the negative effects of smoking.

donations and volunteer support of local causes and national charities, such as the Red Cross and the United Way.

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. Recognizing that today's students are tomorrow's employees and customers, firms such as Kroger, Campbell's Soup, Kodak, American Express, Apple Computer, Xerox, and Coca-Cola are donating money, equipment, and employee time to help improve schools in their communities and around the nation. They provide scholarship money, support for teachers, and computers for students, and they send employees out to tutor and motivate young students to stay in school and succeed. Target, for example, contributes significant resources to education, including direct donations of $100 million to schools as well as fund-raising and scholarship programs that assist teachers and students. Through the retailer's Take Charge of Education program, customers using a Target Guest Card can designate a specific school to which Target donates 1 percent of their total purchase. This program is designed to make customers feel that their purchases are benefiting their community while increasing the use of Target Guest Cards.[58]

Hewlett-Packard's Diversity in Education Initiative focuses on math and science in four minority communities and works with students from elementary school to the university level. The program provides hands-on science kits to elementary and middle schools and gives 40 high school students (10 from each community) annual $3,000 college scholarships. A mentor is assigned to each student, who is given a paid summer internship at Hewlett-Packard and taught how to conduct a job search.[59] 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 educate them now.

Business is also beginning to take more responsibility for the hard-core unemployed. Some are mentally or physically handicapped; some are homeless. Organizations such as the National Alliance of Businessmen fund programs to train the hard-core 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.

Explore Your Career Options

Business Ethics

Many career opportunities are emerging today in the field of business ethics and social responsibility. Approximately one-third of *Fortune* 1,000 firms have an ethics officer, a position that most companies have created only in the last few years. The ethics officer is typically responsible for (1) meeting with employees, the board of directors, and top management to discuss and provide advice about ethics issues; (2) distributing a code of ethics; (3) creating and maintaining an anonymous, confidential service to answer questions about ethical issues; (4) taking actions on possible ethics code violations; and (5) reviewing and modifying the code of ethics. Entry-level jobs in ethics involve assisting with communications programs or training.

If you are interested in a career in the area of business ethics and social responsibility, take courses in business ethics, legal environment, and business and society. Many ethics officers have law degrees due to the interrelationship of many legal and ethical issues. Some elective courses in moral philosophy or sociology may also be useful. Subscribe to a magazine such as *Business Ethics,* a popular trade journal that provides information about companies that have ethics programs or are involved with socially responsible activities. By learning more about how real companies are carrying out the ethics/social responsibility function, you will be better prepared to apply for a job and be knowledgeable in matching your interests with a company's needs. Although there are only a small number of jobs available today in this emerging area, you could be in the forefront of a developing concern that has much potential for career advancement. If you prepare yourself properly through education and possibly a part-time job or internship in a large firm with an ethics department, you will greatly enhance the probability of developing a successful career in business ethics and social responsibility.[60]

Review Your Understanding

Define business ethics and social responsibility and examine their importance.

Business ethics refers to principles and standards that define acceptable business conduct. Acceptable business behavior is defined by customers, competitors, government regulators, interest groups, the public, and each individual's personal moral principles and values. Social responsibility is the obligation an organization assumes to maximize its positive impact and minimize its negative impact on society. Socially responsible businesses win the trust and respect of their employees, customers, and society and, in the long run, increase profits. Ethics is important in business because it builds trust and confidence in business relationships. Unethical actions may result in negative publicity, declining sales, and even legal action.

Detect some of the ethical issues that may arise in business.

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 right or wrong. Ethical issues can be categorized in the context of their relation with conflicts of interest, fairness and honesty, communications, and business associations.

Specify how businesses can promote ethical behavior by employees.

Businesses can promote ethical behavior by employees by limiting their opportunity to engage in misconduct. Formal codes of ethics, ethical policies, and ethics training programs reduce the incidence of unethical behavior by informing employees what is expected of them and providing punishments for those who fail to comply.

Explain the four dimensions of social responsibility.

The four dimensions of social responsibility are economic (being profitable), legal (obeying the law), ethical (doing what is right, just, and fair), and voluntary (being a good corporate citizen).

Debate an organization's social responsibilities to owners, employees, consumers, the environment, and the community.

Businesses must maintain proper accounting procedures, provide all relevant information about the performance of the firm to investors, 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 them fairly. Consumerism refers to the activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers. Increasingly, society expects businesses to take greater responsibility for the environment, especially with regard to animal rights, as well as water, air, land, and noise pollution. Many businesses engage in activities to make the communities in which they operate better places for everyone to live and work.

Evaluate the ethics of a business's decision.

The "Solve the Dilemma" box on page 41 presents an ethical dilemma at Checkers Pizza. Using the material presented in this chapter, you should be able to analyze the ethical issues present in the dilemma, evaluate Barnard's plan, and develop a course of action for the firm.

Revisit the World of Business

1. Why do you think Home Depot has such a strong commitment to communities?
2. What are the social responsibility benefits to a company that recycles, uses environmentally responsible forest products, and encourages customers to use energy efficient products?
3. Do you think Home Depot would be as successful if it was not involved in social responsibility initiatives? Why or why not?

Learn the Terms

Check Your Progress

1. Define business ethics. Who determines whether a business activity is ethical? Is unethical conduct always illegal?
2. Distinguish between ethics and social responsibility.
3. Why has ethics become so important in business?
4. What is an ethical issue? What are some of the ethical issues named in your text? Why are they ethical issues?
5. What is a code of ethics? How can one reduce unethical behavior in business?
6. List and discuss the arguments for and against social responsibility by business (Table 2.7). Can you think of any additional arguments (for or against)?
7. What responsibilities does a business have toward its employees?
8. 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?
9. What are a business's responsibilities toward the community in which it operates?

Get Involved

1. Discuss some recent examples of businesses engaging in unethical practices. Classify these practices as issues of conflict of interest, fairness and honesty, communications, or business relationships. Why do you think the businesses chose to behave unethically? What actions might the businesses have taken?
2. Discuss with your class some possible methods of improving ethical standards in business. Do you think that business should regulate its own activities or that the federal government should establish and enforce ethical standards? How do you think businesspeople feel?
3. Find some examples of socially responsible businesses in newspapers or business journals. Explain why you believe their actions are socially responsible. Why do you think the companies chose to act as they did?

Build Your Skills

MAKING DECISIONS ABOUT ETHICAL ISSUES

Background:
The merger of Lockheed and Martin Marietta created Lockheed Martin, the number-one company in the defense industry—an industry that includes such companies as McDonnell Douglas and Northrop Grumman.

You and the rest of the class are managers at Lockheed Martin Corporation, Orlando, Florida. You are getting ready to do the group exercise in an ethics training session. The training instructor announces you will be playing *Gray Matters: The Ethics Game.* You are told that *Gray Matters,* which was prepared for your company's employees, is also played at 41 universities, including Harvard University, and at 65 other companies. Although there are 55 scenarios in *Gray Matters,* you will have time during this session to complete only the four scenarios that your group draws from the stack of cards.[61]

Task:
Form into groups of four to six managers and appoint a group leader who will lead a discussion of the case, obtain a consensus answer to the case, and be the one to report the group's answers to the instructor. You will have five minutes to reach each decision, after which time, the instructor will give the point values and rationale for each choice. Then you will have five minutes for the next case, etc., until all four cases have been completed. Keep track of your group's score for each case; the winning team will be the group scoring the most points.

Since this game is designed to reflect life, you may believe that some cases lack clarity or that some of your choices are not as precise as you would have liked. Also, some cases have only one solution, while others have more than one solution. Each choice is assessed points to reflect which answer is the most correct. **Your group's task is to select only one option in each case.**

Your group draws cards 4, 7, 36, and 40.

4

Mini-Case

For several months now, one of your colleagues has been slacking off, and you are getting stuck doing the work. You think it is unfair. What do you do?

Potential Answers

A. Recognize this as an opportunity for you to demonstrate how capable you are.
B. Go to your supervisor and complain about this unfair workload.
C. Discuss the problem with your colleague in an attempt to solve the problem without involving others.
D. Discuss the problem with the human resources department.

7

Mini-Case

You are aware that a fellow employee uses drugs on the job. Another friend encourages you to confront the person instead of informing the supervisor. What do you do?

Potential Answers

A. You speak to the alleged user and encourage him to get help.
B. You elect to tell your supervisor that you suspect an employee is using drugs on the job.
C. You confront the alleged user and tell him either to quit using drugs or you will "turn him in."
D. Report the matter to employee assistance.

36

Mini-Case

You work for a company that has implemented a policy of a smoke-free environment. You discover employees smoking in the restrooms of the building. You also smoke and don't like having to go outside to do it. What do you do?

Potential Answers

A. You ignore the situation.
B. You confront the employees and ask them to stop.
C. You join them, but only occasionally.
D. You contact your ethics or human resources representative and ask him or her to handle the situation.

40

Mini-Case

Your co-worker is copying company-purchased software and taking it home. You know a certain program costs $400, and you have been saving for a while to buy it. What do you do?

Potential Answers

A. You figure you can copy it too since nothing has ever happened to your co-worker.
B. You tell your co-worker he can't legally do this.
C. You report the matter to the ethics office.
D. You mention this to your supervisor.

eXtreme Surfing

- **Transparency International**
  www.transparency.org
  Provides a listing of the most corrupt countries in the world.
- **Business for Social Responsibility**
  www.bsr.org
  Offers news and resources about social responsibility in business today as part of a membership organization of global corporations.
- **E-Ethics Center**
  www.e-businessethics.com
  Provides a wealth of information about business ethics, corporate citizenship, organizational compliance, and related topics.
- **Bureau of Consumer Protection**
  www.ftc.gov/bcp/bcp.htm
  Warns consumers information about unfair, deceptive, or fraudulent business practices and offers advice on how to avoid them.

See for Yourself Videocase

MONEY AND ETHICS

Organizational practices and policies often create pressures, opportunities, and incentives that may sway employees to make unethical decisions. We have all seen news articles describing some "decent, hard-working family person" who had a highly ethical personal life yet chose to engage in illegal or unethical conduct in business. Understanding organizational ethics is important in developing ethical leadership. To help gain this understanding, it may be instructive to examine two companies facing ethical and legal issues.

Stew Leonard Makes a Personal Ethical Mistake

The story of Stew Leonard illustrates how one person's misconduct can affect the reputation of a company and destroy years of hard work. Stew Leonard's Farm Fresh Foods began in 1969 as a small dairy store with seven employees. Over the years, the store grew considerably, with over thirty additions. It also expanded beyond the fresh dairy products into meat, fish, produce, bakery, cheeses, and wines. Today, Stew Leonard's has become the World's Largest Dairy Store and a renowned grocery store, with nearly $300 million in annual sales and 2,000 employees. Headquartered in Norwalk, Connecticut, the company also has stores in Danbury, Connecticut and Yonkers, New York. Where a traditional supermarket might carry an average of 30,000 items, Stew Leonard's stores carry only about 2,000, each individually chosen for its freshness and quality. The company has also remained a family business: the founder's son, Stew Leonard, Jr., is now the company president and CEO, while son Tom Leonard helped to open the Danbury, Connecticut, store.

In every respect, Stew Leonard's has been a model company and was recently named to *Fortune* magazine's "100 Best Companies to Work For." However, Stew Leonard, Sr., brought embarrassment and negative publicity to the company as a result of his personal actions, even though his son took over the company in 1987. After reports that the founder was taking unreported money from the stores to a Caribbean island to avoid federal income taxes, he was convicted of tax invasion and served several years in prison in the 1990s. The publicity surrounding his conviction tarnished the many good things he had achieved in building the business, as well as his own personal reputation.

Prior to his conviction, Stew Leonard, Sr. had been interviewed in numerous publications about the importance of ethics and social responsibility in business and how they had contributed to his own success. Anyone who has spent time in a federal prison will tell you that cheating others to gain more money is not worth it. People who take advantage of others and violate the laws or ethical standards of our society usually have to pay. Although the business Stew Leonard founded continues to do well, his family and business have been tainted by his crime.

Focusing on the Bottom Line Destroys Arthur Andersen

Arthur Andersen LLP was founded in Chicago in 1913 by Arthur Andersen and partner Clarence DeLany. Over a span of nearly ninety years, the Chicago accounting firm became known as one of the "Big Five" largest accounting firms in the United States, together with Deloitte & Touche, PricewaterhouseCoopers, Ernst & Young, and KPMG. For most of those years, the firm's name was nearly synonymous with trust, integrity, and ethics. Such values are crucial for a firm charged with independently auditing and confirming the financial statements of public corporations, on whose accuracy investors depend for investment decisions.

Although Arthur Andersen once exemplified the rock-solid character and integrity that was synonymous with the accounting profession, high-profile bankruptcies of clients such as Enron and WorldCom capped a string of accounting scandals that eventually cost investors nearly $300 billion and hundreds of thousands of people their jobs. As a result, the Chicago-based accounting firm was forced to close its doors after ninety years of business.

During Andersen's last decade, growth became the priority, and the firm's emphasis on recruiting and retaining big clients perhaps came at the expense of quality and independence in its auditing practice. The company developed a major consulting business, which was linked to its auditing practice in a joint cooperative relationship, which may have compromised its auditors' independence, a quality crucial to the execution of a credible audit. The firm's focus on growth also generated a fundamental shift in its corporate culture, to a point where obtaining high-profit consulting business seemed to have been regarded more highly than providing objective auditing services. Those individuals who could deliver the big accounts were often promoted ahead of the practitioners of quality audits.

The company was convicted of obstruction of justice and agreed to cease auditing public corporations in 2002, essentially marking the end of the ninety-year-old accounting institution. Its consulting unit, which had been spun off into a separate entity, called Accenture, was free and clear of all charges. Perhaps understandably, the consulting firm chooses to avoid mentioning its origins and association with Andersen.

A large number of Arthur Andersen's clients were embroiled in the accounting scandals of the early twenty-first century and some sought refuge in bankruptcy court. The scandals helped spur a new focus on business ethics, driven largely by public demands for greater corporate transparency and accountability. In response, Congress passed the Sarbanes-Oxley Act of 2002, which established new guidelines and direction for corporate and accounting responsibility.

Most members of society today are expressing concern for more responsible and ethical conduct in business. The values learned from family, school, and friends may not always provide specific guidelines for complex decisions in the business world. In general, if you are afraid to tell your coworkers or family about what you are doing, have resorted to hiding and destroying information to cover your actions, or have schemed to avoid doing the right thing, then you should recognize that, like Stew Leonard, Sr. and Arthur Andersen, LLP, your actions can not only harm you but also jeopardize all of your good work.[62]

Discussion Questions

1. After becoming so financially successful, why do you think Stew Leonard, Sr. was willing to risk everything by avoiding taxes?
2. What do you think caused Arthur Andersen to focus too much on the bottom line, rather than responsible accounting services?
3. Why do so many ethical problems relate to money and greed?

Remember to check out our Online Learning Center at www.mhhe.com/ferrell5e.

Chapter 2

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