Chapter 4: Business Ethics and Social Responsibility:
Doing Well by Doing Good
(pp. 52-0)

LEARNING OBJECTIVES

After studying this chapter, you will be able to…

LO1 Define ethics and explain the concept of universal ethical standards

LO2 Describe business ethics and ethical dilemmas

LO3 Discuss how ethics relates to both the individual and the organization

LO4 Define social responsibility and examine the impact on stakeholder groups

LO5 Explain the role of social responsibility in the global arena

LO6 Describe how companies evaluate their efforts to be socially responsible
LO1 Ethics and Social Responsibility: A Close Relationship

Ethics and social responsibility—often discussed in the same breath—are closely related, but they are definitely not the same. Ethics are a set of beliefs about right and wrong, good and bad; business ethics involve the application of these issues in the workplace. Clearly, ethics relate to individuals and their day-to-day decision making. Just as clearly, the decisions of each individual can affect the entire organization.

Social responsibility is the obligation of a business to contribute to society. The most socially responsible firms feature proactive policies that focus on meeting the needs of all their stakeholders—not just investors but also employees, customers, the broader community, and the environment. The stance of a company regarding social responsibility sets the tone for the organization and clearly influences the decisions of individual employees.

While this chapter discusses ethics and social responsibility separately, keep in mind that the two areas have a dynamic, interactive relationship that plays a vital role in building both profitable businesses and a vibrant community.

Defining Ethics: Murkier Than You'd Think

In the most general sense, ethics are a set of beliefs about right and wrong, good and bad. While your individual ethics stem from who you are as a human being, your family, your social group, and your culture also play a significant role in shaping your ethics. And therein lies the challenge: in the United States, people come from such diverse backgrounds that establishing broad agreement on specific ethical standards can be daunting. The global arena only amplifies the challenge.

A given country's legal system provides a solid starting point for examining ethical standards. The function of laws in the United States (and elsewhere) is to establish and enforce ethical norms that apply to everyone within our society. Laws provide basic standards of behavior. But truly ethical behavior goes beyond the basics. In other words, your actions can be completely legal, yet still unethical. But since the legal system is far from perfect, in rare instances your actions can be illegal, yet still ethical. Exhibit 4.1 shows some examples

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<th>EXHIBIT 4.1 Legal-Ethical Matrix</th>
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<td>LEGAL AND UNETHICAL</td>
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<td>Promoting R-rated movies to young teens</td>
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<td>Producing products that you know will break before their time</td>
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<td>Paying non-living wages to workers in developing countries</td>
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of how business conduct can fall within legal and ethical dimensions. Clearly, legal and ethical actions should be your goal. Legality should be the floor—not the ceiling—for how to behave in business and elsewhere.

Do all actions have ethical implications? Clearly not. Some decisions fall within the realm of free choice with no direct link to right and wrong, good and bad. Examples might include where you buy your morning coffee, what features your company includes on its new MP3 players, or what new machines your gym decides to purchase.

Universal Ethical Standards: A Reasonable Goal or Wishful Thinking?

Too many people view ethics as relative. In other words, their ethical standards shift depending on the situation and how it relates to them. Here are a few examples:

- “It's not okay to steal paper clips from the stationery store…but it's perfectly fine to ‘borrow’ supplies from the storage closet at work. Why? The company owes me a bigger salary.”
- “It's wrong to lie…but it's okay to call in sick when I have personal business to take care of. Why? I don't want to burn through my limited vacation days.”
- “Everyone should have a level playing field…but it's fine to give my brother the first shot at my company's contract. Why? I know he really needs the work.”

This kind of two-faced thinking is dangerous because it can help people rationalize bigger and bigger ethical deviations. But the problem can be fixed by identifying universal ethical standards that apply to everyone across a broad spectrum of situations. Some people argue that we could never find universal standards for a country as diverse as the United States. But the nonprofit, nonpartisan Character Counts organization has worked with a diverse group of educators, community leaders, and ethicists to identify six core values, listed in Exhibit 4.2, that transcend...
political, religious, class, and ethnic divisions.

**LO2 Business Ethics: Not an Oxymoron**

Quite simply, *business ethics* is the application of right and wrong, good and bad in a business setting. But this isn’t as straightforward as it may initially seem. The most challenging business decisions seem to arise when values are in conflict...when whatever you do will have negative consequences, forcing you to choose among bad options. These are true ethical dilemmas. (Keep in mind that ethical dilemmas differ from ethical lapses, which involve clear

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**Bad News Today—Worse News Tomorrow!**

In 2010, the Josephson Institute Center for Youth Ethics produced a Report Card on the Ethics of American Youth, based on a survey of 43,000 students in high schools across the United States. The results suggest that students are disturbingly willing to lie, cheat, steal, or intimidate others, despite a sky-high opinion of their own personal character. Some highlights (or perhaps we should call them lowlights):

- 59% admitted that they cheated on a test at school within the past 12 months (34% admitted doing so two or more times).
- 39% believe that a person has to lie or cheat sometime in order to succeed, even though 84% agree that it’s not worth it to lie or cheat because it hurts your character.
- 18% admitted that they stole something from a friend within the past twelve months.
- 21% admitted that they stole something from their parents within the past twelve months.
72% agree that it's sometimes OK to hit or threaten a person who makes me very angry.
28% admitted that they stole something from a store within the past twelve months.

Sadly, the actual rates of bad behavior are probably understated, since more than 25% admitted that they lied on one or two questions, and experts agree that dishonesty on surveys usually reflects an attempt to conceal misconduct.

Despite rampant lying, cheating, and stealing, 98% of respondents agreed that it's important to be a person of good character, and 79% would rate their own character higher than that of their peers. Furthermore, 92% said they were satisfied with their personal character.

A number of analysts find it easy to dismiss the long-term implications of these findings, claiming that as teenagers mature, their judgment and morals will mature as well and their conduct will reflect stronger values. A recent large-scale study by the Josephson Institute of Ethics found unequivocally that high-school attitudes and behaviors and actions are a clear predictor of adult behavior across a range of situations. Cheaters in high school are far more likely as adults to lie to their spouses, customers, bosses, and employers and to cheat on expense reports, taxes, and insurance claims.

Clearly, now is the time for smart companies to clarify their standards and establish safeguards to head off costly ethical meltdowns in their future workforce.¹

misconduct.) Here are a couple of hypothetical examples of ethical dilemmas:

- You've just done a great job on a recent project at your company. Your boss has been very vocal about acknowledging your work and the increased revenue that resulted from it. Privately, she said that you clearly earned a bonus of at least 10%, but due to company politics, she was unable to secure the bonus for you. She also implied that if you were to submit inflated expense reports for the next few months, she would look the other way, and you could pocket the extra cash as well-deserved compensation for your contributions.

- One of the engineers on your staff has an excellent job offer from another company and asks your advice on whether or not to accept the position. You need him to complete a project that is crucial to your company (and to your own career). You also have been told—in strictest confidence by senior management—that when this project is complete, the company will lay off all internal engineers. If you advise him to stay, he would lose the opportunity (and end up without a job), but if you advise him to go, you would violate the company's trust (and jeopardize your own career).

LO3 Ethics: Multiple Touchpoints

Although each person must make his or her own ethical choices, the organization can have a significant influence on the quality of those decisions. The next two sections discuss the impact of both the individual and the organization on ethical decision making, but as you read them, keep in mind that the interaction between the two is dynamic: sometimes it's hard to tell where one stops and the other starts.

Ethics and the Individual: The Power of One

Ethical choices begin with ethical individuals. Your personal needs, your family, your culture, and your religion all influence your value system. Your personality traits—self-esteem, self-confidence, independence, and sense of humor—play a significant role as well. These factors all come into play as you face ethical dilemmas. The challenge can be overwhelming, which has led a range of experts to develop frameworks for reaching ethical decisions. While the specifics vary, the key principles of most decision guides are very similar:

- Do you fully understand each dimension of the problem?
- Who would benefit? Who would suffer?
- Are the alternative solutions legal? Are they fair?
- Does your decision make you comfortable at a "gut feel" level?
- Could you defend your decision on the nightly TV news?
- Have you considered and reconsidered your responses to each question?

The approach seems simple, but in practice it really isn't. Workers—and managers, too—often face enormous pressure to do what's right for the company or right for their career, rather than simply what's right. And keep in mind that it's completely possible for two people to follow the framework and arrive at completely different decisions, each feeling confident that he or she has made the right choice.

You have to do your own growing no matter how tall your grandfather was.

— ABRAHAM LINCOLN
Ethics and the Organization: It Takes a Village

Although each person is clearly responsible for his or her own actions, the organization can influence those actions to a startling degree. Not surprisingly, that influence starts at the top, and actions matter far more than words. The president of the Ethics Resource Center states, “CEOs in particular must communicate their personal commitment to high ethical standards and consistently drive the message down to employees through their actions.” Any other approach—even just the appearance of shaky ethics—can be deeply damaging to a company’s ethical climate. Here are a couple of examples from the news:

- High Flyers: When the CEOs of the Big Three automakers—two of them hovering on the edge of bankruptcy—went to Washington to request a $25 billion bailout package, they flew in three separate corporate jets at an estimated cost of $20,000 per round-trip flight. All three were operating in line with official corporate travel policies, but it just didn’t look right. One lawmaker pointedly asked, “Couldn’t you all have downgraded to first class or jet-pooled or something to get here? It would have at least sent a message that you do get it.” Not surprisingly, the execs left empty-handed.

- Beach Junket: A few days after the Fed committed $85 billion to keep AIG out of bankruptcy, the insurer spent more than $440,000 on a sales “retreat” at a luxury resort in California. Expenditures included $150,000 for food, $23,000 in spa charges, and $7,000 for golf. Rather than apologizing, CEO Edward Liddy only committed that the company would examine its expenses.

- Retirement Perks: When Jack Welch retired from his post as CEO of General Electric, the Board awarded him a generous financial package and an eye-popping collection of perks. His perks ranged from use of an $80,000 per month apartment, to country club fees, to corporate jet privileges. These perks did not represent an unethical breach—Welch negotiated them in good faith—but when the list surfaced in the press a year after his retirement, he voluntarily gave up his perks to mitigate a public relations problem that could have tarnished his reputation as a tough, ethical, and highly successful CEO.

- Gross Excess: In the mid-1990s, Disney CEO Michael Eisner hired his friend Michael Ovitz as Disney’s president. Fourteen months later, Disney fired Ovitz for incompetence, and he walked away with a $140 million settlement. Disgruntled stockholders sued the Disney Board for mismanagement, which led to the release of Ovitz’s Disney expense account documents. In 14 months, he spent $4.8 million (that’s about $80,000 per week!). Specifics included $54,330 for basketball tickets, a $946 gun for movie director Robert Zemeckis, and $319 for breakfast. Was he stealing? No. Was he unethical? You decide.

Creating and Maintaining an Ethical Organization

Research from the Ethics Resource Center (ERC) suggests that organizational culture has more influence than any other variable on the ethical conduct of individual employees. According to the ERC, key elements of a strong culture include displays of ethics-related actions at all levels of an organization and accountability for actions. The impact of these elements can be dramatic. Consider, for example, the following research results:

- A 61 percentage-point favorable difference in the level of observed misconduct when employees say they work in a strong ethical culture.
- When employees felt that the great recession negatively impacted the ethical culture of their company, misconduct rose by 16 percentage points.
- If an accountable business is defined as one that confronts misconduct and establishes a rigorous system to prevent a recurrence, nearly 80% of employees said they work in a firm where, in practice, employees at all levels are held accountable to company standards.
Robert Lane, former CEO of Deere, a highly performing, highly ethical corporation, believes in the importance of senior management commitment to ethics, but he points out that the “tone at the top” must be reinforced by the actual behavior observed by suppliers, dealers, customers, and employees. At Deere, this is summed up in highly visible, frequently referenced shorthand known as “the how.” Lane declares that to establish an ethical culture, ethical words must be “backed up with documented practices, processes, and procedures, all understood around the globe.”

A strong organizational culture works in tandem with formal ethics programs to create and maintain ethical work environments. A written code of ethics is the cornerstone of any formal ethics program. The purpose of a written code is to give employees the information they need to make ethical decisions across a range of situations. Clearly, an ethics code becomes even more important for multinational companies, since it lays out unifying values and priorities for divisions that are rooted in different cultures. But a written code is worthless if it doesn’t reflect living principles. An effective code of ethics flows directly from ethical corporate values and leads directly to ongoing communication, training, and action.

**EXHIBIT 4.3 Ethics at Work: How Would You Judge the Actions of These Business Leaders?**

*Pierre Omidyar* eBay creator Omidyar has contributed $100 million to the Tufts University Micro Finance Fund. His goal is to give economic power to poor people around the world through small business loans. Ultimately, he hopes to create entrepreneurial self-sufficiency as eBay has done for so many avid users.

*Sherron Watkins* Despite intense pressure and high personal stakes, Watkins, a former vice president of Enron, reported the accounting irregularities that led to the discovery of staggering corporate fraud.

*Stanley O’Neal* As investment house Merrill Lynch began racking up losses that led to its collapse, CEO O’Neal announced his “retirement” and walked away with a compensation package worth more than $160 million.

*John A. Thain* Thain, the ousted Merrill Lynch executive, under pressure from President Obama, agreed to reimburse Federal bailout recipient Bank of America for an expensive renovation of his office that included an $87,000 area rug and a $35,000 commode.

*Bill Gates* As Microsoft CEO, Bill Gates made some ethically shaky moves, but he and his wife also established the Bill and Melinda Gates Foundation, by far the largest U.S. charity. Working for the foundation, Gates applies his famous problem-solving skills to global health, global development, and American education.

*John Mackey* From 1999 until 2006, Whole Foods CEO John Mackey posted thousands of anonymous comments on Yahoo! Finance, hyping his company and occasionally attacking rival Wild Oats, which he hoped to purchase for an advantageous price.

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Specific codes of ethics vary greatly among organizations. Perhaps the best-known code is the Johnson and Johnson Credo, which has guided the company profitably—with a soaring reputation—through a number of crises that would have sunk lesser organizations. One of the striking elements of the Credo is the firm focus on fairness. It carefully refrains from overpromising sufficiency as eBay has done for so many avid users.

1. Get executive buy-in and commitment to follow-through. Top managers need to communicate—even overcommunicate—about the importance of ethics. But talking works only when it’s backed up by action: senior management must give priority to keeping promises and leading by example.
2. Establish expectations for ethical behavior at all levels of the organization, from the CEO to the nighttime cleaning crew. Be sure that outside parties such as suppliers, distributors, and customers understand the standards.
3. Integrate ethics into mandatory staff training. From new-employee orientation to ongoing training, ethics must play a role. Additional, more specialized training helps for employees who face more temptation (e.g., purchasing agents, overseas sales reps).
4. Ensure that your ethics code is both global and local in scope. Employees in every country should understand both the general principles and the specific applications. Be sure to translate it into as many languages as necessary.
5. Build and maintain a clear, trusted reporting structure for ethical concerns and violations. The structure should allow employees to seek anonymous guidance for ethical concerns and to report ethics violations anonymously.
6. Establish protection for whistle-blowers, people who report illegal or unethical behavior. Be sure that no retaliation occurs, in compliance with both ethics and the Sarbanes-Oxley Act (see discussion later in the chapter). Some have even suggested that whistle-blowers should receive a portion of the penalties levied against firms that violate the law.
7. Enforce the code of ethics. When people violate ethical norms, companies must respond immediately and—whenever
appropriate—publicly to retain employee trust. Without enforcement, the code of ethics becomes meaningless.

LO4 Defining Social Responsibility: Making the World a Better Place

Social responsibility is the obligation of a business to contribute to society. Similar to ethics, the broad definition is clear, but specific implementation can be complex. Obviously, the number-one goal of any business is long-term profits; without profits, other contributions are impossible. But once a firm achieves a reasonable return, the balancing act begins: how can a company balance the need to contribute against the need to boost profits, especially when the two conflict? The answer depends on the business's values, mission, resources, and management philosophy, which lead in turn to its position on social responsibility. Business approaches fall across the spectrum, from no contribution to proactive contribution, as shown in Exhibit 4.4.

The Stakeholder Approach: Responsibility to Whom?

Stakeholders are any groups that have a stake—or a personal interest—in the performance and actions of an organization. Different stakeholders have different needs, expectations, and levels of interest. The federal government, for instance, is a key stakeholder in pharmaceutical companies but a very minor stakeholder in local art studios. The community at large is a key stakeholder for a coffee shop chain but a minor stakeholder for a web design firm. Enlightened organizations identify key stakeholders for their business and consider stakeholder priorities in their decision making. The goal is to balance their needs and priorities as effectively as possible, with an eye toward building their business over the long term. Core stakeholder groups for most businesses are employees, customers, investors, and the broader community.

Responsibility to Employees: Creating Jobs That Work

Jobs alone aren't enough. The starting point for socially responsible employers is to meet legal standards, and the
But socially responsible employers go far beyond the law. They create a workplace environment that respects the dignity and value of each employee. They ensure that hard work, commitment, and talent pay off. They move beyond minimal safety requirements to establish proactive protections, such as ergonomically correct chairs and computer screens that reduce eyestrain. And the best employers respond to the ongoing employee search for a balance between work and personal life. With an increasing number of workers facing challenges such as raising kids and caring for elderly parents, responsible companies are stepping in with programs such as on-site day care, company-sponsored day camp, and referral services for elder care.

Responsibility to Customers: Value, Honesty, and Communication

One core responsibility of business is to deliver consumer value by providing quality products at fair prices. Honesty and communication are critical components of this equation. Consumerism—a widely accepted social movement—suggests that consumer rights should be the starting point. In the early 1960s, President Kennedy defined these rights, which most businesses respect in response to both consumer expectations and legal requirements:

- The Right to Be Safe: Businesses are legally responsible for injuries and damages caused by their products—even if they have no reason to suspect that their products might cause harm. This makes it easy for consumers to file suits. In some cases, the drive to avert lawsuits has led to absurdities such as the warning on some coffee cups: “Caution! Hot coffee is hot!” (No kidding…)
- The Right to Be Informed: The law requires firms in a range of industries—from mutual funds, to groceries, to pharmaceuticals—to provide the public with extensive information. The Food and Drug Administration, for instance, mandates that most grocery foods feature a very specific “Nutrition Facts” label. Beyond legal requirements, many firms use the Web to provide a wealth of extra information about their products. KFC, for example, offers an interactive Nutrition Calculator that works with all of its menu items (and it’s fun to use, too).
- The Right to Choose: Freedom of choice is a fundamental element of the capitalist U.S. economy. Our economic system works largely because consumers freely choose to purchase the products that best meet their needs. As businesses compete, consumer value increases. Socially responsible firms support consumer choice by following the laws that prevent anticompetitive behavior such as predatory pricing, collusion, and monopolies.
- The Right to Be Heard: Socially responsible companies make it easy for consumers to express legitimate complaints. They also develop highly trained customer service people to respond to complaints. In fact, smart businesses view customer complaints as an opportunity to create better products and stronger relationships. Statistics suggest that 1 in 50 dissatisfied customers takes the time to complain. The other 49 quietly switch brands. By soliciting feedback, you're not only being responsible, but also building your business.

Delivering quality products is another key component of social responsibility to consumers. Planned obsolescence —deliberately designing products to fail in order to shorten the time between consumer repurchases—represents a clear violation of social responsibility. In the long term, the market itself weeds out offenders. After all, who would repurchase a product that meets a premature end? But in the short term, planned obsolescence thins consumer wallets and abuses consumer trust.

When businesses do make mistakes, apologizing to consumers won’t guarantee renewed sales. But a sincere apology can definitely restore a company’s reputation, which can ultimately lead to greater profits. Three recent examples make this point clear:

© Trapped! Due to a huge snowstorm on Valentine's Day 2007, ten jetBlue planes were stranded on the tarmac at New York's JFK airport, trapping furious passengers—with no information, no
EXHIBIT 4.5 Social Responsibility at Work

How would you judge the actions of these firms?

The Clorox Company In early 2008, Clorox introduced a line of “99% natural” cleaning products called Green Works. This is the first such effort from a major consumer products company, and also the first time that the Sierra Club has endorsed a product line by allowing the use of its logo on the labels. In return, Clorox makes an annual contribution to the Sierra Club, the amount based on total Green Works sales.

Tyson Foods Tyson has been accused of unfair business practices, unsavory labor and environmental practices, and controversial chicken-raising protocols, but in 2009, the factory farmer gave nearly 11% of its profits to charity.

Kraft As obesity among kids spirals out of control, Kraft has taken a brave stand: a pledge to stop advertising unhealthy—yet highly profitable—foods to young children. Kraft also plans to eliminate in-school marketing and drop some unhealthy snacks from school vending machines. As the king of the food business, Kraft has chosen what’s right for kids over what’s right for its own short-term profits.

Enron/Arthur Andersen (now defunct) Enron, once hailed as a shining example of corporate excellence, collapsed in late 2001 due to massive accounting fraud, which bilked employees and other small investors out of millions of dollars. Arthur Andersen, hired to audit Enron’s accountings, participated in the scandal by masking the issues and shredding documents containing potential evidence.

Bank of America After receiving $45 billion in taxpayer bailout funds, Bank of America sponsored a five-day carnival-like event outside the 2009 Super Bowl stadium called the NFL Experience. The high-profile attraction included 850,000 square feet of sports games, plus marketing solicitations for football-themed B of A banking products. The bank defended the event as an effective growth strategy, while critics blasted it as an abuse of taxpayer dollars.

Toyota In 2009 Toyota stonewalled for months before admitting to a defect in some of its most popular cars that appeared to cause fatal accidents due to unintended acceleration. Even after announcing a large-scale recall, Toyota waited five days before halting new sales on models affected by the recall. Some analysts believe that Toyota knew about the defects long before the problems began and opted to do nothing.
Socially responsible employers provide safe workspaces for all of their employees. © Purestock/Jupiterimages

power, and limited refreshments—for as long as eight hours. In the wake of the storm, jetBlue canceled more than 1,000 additional flights. JetBlue CEO David Neeleman responded with a profuse apology, reimbursing customers and establishing a customer bill of rights. The airline estimates that the total cost of the crisis was between $20 million and $30 million. But in 2008, jetBlue won its fourth consecutive customer service award from J.D. Power and Associates, clear evidence that the apology worked to regain customer trust.  

- **Deleted without Warning:** In mid-2009, Amazon remotely and abruptly deleted some digital editions of books from the Kindle devices of customers who had already purchased them (because Amazon hadn't obtained proper rights to make those sales in the first place). Indignant customers were furious at this violation of their privacy, which many felt was akin to theft, despite an automatic refund of the purchase price from Amazon. Amazon founder and CEO Jeff Bezos issued a characteristically blunt apology, stating that the company's actions were "stupid, thoughtless, and painfully out of line with its principles." But fortunately for Amazon, not too much harm was done, since by the end of 2009, Kindle remained Amazon's best-selling product, and sales of Kindle digital books hit 48 percent of the sales of physical books.  

- **Apple Angst:** Apple introduced the iPhone on June 29, 2007, to rave reviews and stellar sales, despite the $599 price tag. But two months later, Apple dropped the price of the phone by $200, in order to expand the user base yet further. Not surprisingly, early adopters were livid—why, they demanded, did Apple repay their trust and support by ripping them off? CEO Steve Jobs quickly apologized and offered every $599 iPhone customer a $100 Apple store credit. The response seemed to work. In 2008, Apple's ranking in the American Customer Satisfaction Index climbed 8%, a full ten percentage points ahead of its nearest competitor in an industry where ratings in general are sinking.  

**Responsibility to Investors: Fair Stewardship and Full Disclosure**

The primary responsibility of business to investors is clearly to make money—to create an ongoing stream of profits. But companies achieve and maintain long-term earnings in the context of responsibility to **all** stakeholders, which may mean trading short-term profits for long-term success. Responsibility to investors starts by meeting legal requirements, and in the wake of recent corporate scandals, the bar is higher than ever. The 2002 **Sarbanes-Oxley Act** limits conflict-of-interest issues by restricting the consulting services that accounting firms can provide for the companies they audit. Sarbanes-Oxley also requires that financial officers and
CEOs personally certify the validity of their financial statements. (See Chapter 8 for more detail on the Sarbanes-Oxley Act.)

But beyond legal requirements, companies have a number of additional responsibilities to investors. Spending money wisely would be near the top of the list. For instance, are executive retreats to the South Pacific on the company tab legal? They probably are. Do they represent a responsible use of corporate dollars? Now that seems unlikely. Honesty is another key responsibility that relates directly to financial predictions. No one can anticipate exactly how a company will perform, and an overly optimistic or pessimistic assessment is perfectly legal. But is it socially responsible? It probably isn't, especially if it departs too far from the objective facts—which is, of course, a subjective call.

Responsibility to the Community: Business and the Greater Good

Beyond increasing everyone's standard of living, businesses can contribute to society in two main ways: philanthropy and responsibility. Corporate philanthropy includes all business donations to nonprofit groups, including both money and products. The Giving USA Foundation reported that total corporate donations in 2009 exceeded $14 billion, a somewhat surprising bump of +5.5% versus 2008, in the toughest year of the Great Recession. Experts had anticipated that corporate giving would drop in 2009, since, in the words of one key analyst, “As goes the economy, so goes corporate giving… only more so.” At least some of the increased giving appears to come from greater contributions of goods vs. money, since contributions of products seem less vulnerable to economic swings.12

Corporate philanthropy also includes donations of employee time; in other words, some companies pay their employees to spend time volunteering at nonprofits. Timberland, an outdoor clothing company, is a leader in corporate philanthropy, not only donating goods but also giving employees paid six-month sabbaticals to work for nonprofits.13

Some companies contribute to nonprofits through cause-related marketing. This involves a partnership between a business and a nonprofit, designed to spike sales for the company and raise money for the nonprofit. Unlike outright gifts, these dollars are not tax deductible for the company, but they can certainly build the company's brands.

Corporate responsibility relates closely to philanthropy but focuses on the actions of the business itself rather than donations of money and time. The Home Depot, for instance, employs more Olympic hopefuls than any other U.S. company through its Olympic Job Opportunities Program. The firm offers athletes full-time pay and benefits for a flexible 20-hour workweek to accommodate demanding

JUST BECAUSE THEY CAN...

Imagine for a moment that you are a designer of very expensive, fabulous, fashion-forward hats, and every time someone types “hat” into Google, the name of your business pops up first on the list of search results. Clearly, the benefits to your business would be extraordinary; in fact, research shows that about 34% of Google's traffic clicks on the first search result, about twice the percentage that clicks on number two. Because of these benefits, the field of search engine optimization has exploded onto the digital scene in the last decade, with hundreds of consulting firms specializing in helping their clients rise to the top of Google's list. Most of these firms use completely legitimate “white hat” techniques to raise their clients' profiles. But some firms use more controversial “black hat” approaches. These methods involve linking client sites to as many related sites as possible to “fool” Google's search algorithm into thinking that the client sites are extremely popular in their areas of expertise.14
... DOESN'T MEAN THEY SHOULD.

Although black hat search optimization is not illegal, Google and other online search experts consider these approaches to be underhanded, deceptive, and equivalent to cheating. Google responds with “corrective action,” which basically amounts to punishing offenders by dramatically reducing their ranking in search results, or even temporarily removing offenders altogether from search results.

What do YOU think?

- Do you believe that Google results are usually impartial?
- Do you think that Google overreacts to attempts to manipulate its search results?
- As a business owner, what percentage of your budget (if any) would you invest in search engine optimization? Why?

Singing the Blues about going Green

After several years of avid interest in green marketing and green product development, consumers are beginning to show signs of disinterest, or “green fatigue.” Sales of green products have slowed, and sales of less green products (such as bottled water) have grown. In September 2010, a major study showed huge increases between 2008 and 2010 in the number of U.S. consumers who believe that green product alternatives are too expensive, that green products don't work as well, and that green products aren't really better for the environment. According to Consumer Reports, it makes sense to be jaded. Their analysis revealed that green dish detergents were neither better for the environment nor less expensive than standard products. Their analysis of laundry detergents showed that green detergents were more expensive and less effective than standard products. All of this doesn't mean that green is dead; it may just mean that we shouldn't expect too much, too soon. According to Eric Ryan, co-founder of Method Home Corporation, “A lot of green choices require a change in behavior, and people are very slow to change…”

Responsibility to the Environment

Protecting the environment is perhaps the most crucial element of responsibility to the community. Business is a huge consumer of the world's limited resources, from oil, to timber, to fresh water, to minerals. In some cases, the production process decimates the environment and spews pollution into the air, land, and water, sometimes causing irreversible damage. And the products created by business can cause pollution as well, such as the smog generated by cars, and the sometimes-toxic waste caused by junked electronic parts.

The government sets minimum standards for environmental protection at the federal, state, and local levels. But a growing number of companies are going further, developing innovative strategies to build their business while protecting the environment. Many have embraced the idea of sustainable development: doing business to meet the needs of this generation without harming the ability of future generations to meet their needs. This means weaving environmentalism throughout the business decision-making process. Since sustainable development can mean significant long-term cost savings, the economic crisis may even push forward environmentally friendly programs.

The results of sustainability programs have been impressive across a range of industries. McDonald's, for instance, produces mountains of garbage each year, as do virtually all major fast-food chains. But the Golden Arches stands above the others in its attempts to reduce the problem. An article from the Sustainability Institute reports some encouraging statistics:

- “The company used to ship orange juice to its restaurants in ready-to-serve containers. Now it ships frozen concentrate, which reduces orange juice packaging by 75%—4 million pounds less garbage a year.”
- “Soft drinks were shipped as syrup in cardboard containers. The local restaurants added the water and the fizz. Now the syrup is delivered by trucks that pump it directly into receiving tanks at the restaurants. No packaging is needed at all. Savings: 68 million pounds of cardboard per year.”

Reducing the amount of trash is better than recycling, but recycling trash clearly beats dumping it in a landfill. McDonald's participates in this arena as well, through their extensive recycling programs, but more importantly as a big buyer of recycled products.

Taking an even broader perspective, some firms have started to measure their carbon footprint, with an eye toward reducing it.
Carbon footprint refers to the amount of harmful greenhouse gases that a firm emits throughout its operations, both directly and indirectly. The ultimate goal is to become carbon neutral—either to emit zero harmful gasses or to counteract the impact of emissions by removing a comparable amount from the atmosphere through projects such as planting trees. Dell Inc. became fully carbon neutral in mid-2008, fulfilling its quest to become “the greenest technology on the planet.” More recently, PepsiCo calculated the carbon footprint for its Tropicana orange juice brand and was surprised to learn that about a third of its emissions came from applying fertilizer to the orange groves.

According to the Conference Board, business leaders have begun to see their carbon footprint—both measurement and reduction—as a burgeoning opportunity. Many large corporations track three different types of emissions. The first, called Scope 1, refers to direct emissions produced by corporate operations. The second, called Scope 2, refers to emissions that result from purchased electricity, heat, and steam. Scope 3 emissions, which are more complex to track, are emissions that occur outside a company’s boundary, but over which it has some control. This category includes areas such as employee commutes, supplier emissions, and product-use emissions. Examining Scope 3 emissions has motivated Sony Electronics to make energy efficiency a priority in new product development, and spurred the Coca Cola Corporation to focus on developing more environmentally friendly “cold drink equipment” (e.g., vending machines and fountain drink dispensers). Coke was surprised and dismayed to learn that emissions from their combined cold drink equipment accounted for three times the level of emissions of their total manufacturing.

A growing number of companies use green marketing to promote their business. This means marketing environmental products and practices to gain a competitive edge. Patagonia, for example, markets outdoor clothing using 100% organic cotton and natural fibers such as hemp. But green marketing represents a tough challenge: while most people support the idea of green products, the vast majority won’t sacrifice price, performance, or convenience to actually buy those products. Sometimes, however, green marketing can be quite consistent with profitability. The Toyota Prius hybrid car offers an interesting example. The Prius costs several thousand dollars more than a standard car, but as gas prices skyrocketed through the summer of 2008, consumers flooded the dealerships, snapping up Prius hybrids faster than Toyota could ship them. Yet, when the economy dropped in late 2008, Toyota sales plummeted along with the rest of the industry, suggesting that the environment may be a fair-weather priority for consumers.
LO5 Ethics and Social Responsibility in the Global Arena: A House of Mirrors?

Globalization has made ethics and social responsibility even more complicated for workers at every level. Bribery and corruption are among the most challenging issues faced by companies and individuals that are involved in international business. Transparency International, a leading anticorruption organization, publishes a yearly index of “perceived corruption” across 146 countries. No country scores a completely clean 10 out of 10, and the United States scores a troubling 7.1, which was quite a bit higher than China at 3.5 and India at 3.1, but lower than most of the European countries that dominate the top of the list. Not surprisingly, the world’s poorest countries fall largely in the bottom half of the index, suggesting that rampant corruption is part of their business culture.

Corruption wouldn’t be possible if companies didn’t offer bribes, so Transparency International also researched the likelihood of firms from industrialized countries to pay bribes abroad. The 2008 results indicated that firms from export powers Russia, China, and Mexico rank among the worst, with India following close behind. U.S. corporations, forbidden to offer bribes since 1977 under the Foreign Corrupt Practices Act, show a disturbing inclination to flout the law. The United States scored 8.1 out of a possible 10, falling below many Western European countries.

These statistics raise some thought-provoking questions:

- When does a gift become a bribe? The law is unclear, and perceptions differ from country to country.
- How can corporations monitor corruption and enforce corporate policies in their foreign branches?
- What are other ways to gain a competitive edge in countries where bribes are both accepted and expected?

Other challenging issues revolve around business responsibility to workers abroad. At minimum, businesses should pay a living wage for reasonable hours in a safe working environment. But exactly what this means is less clear-cut. Does a living wage mean enough to support an individual or a family? Does “support” mean enough to subsist day to day or enough to live in modest comfort? Should American businesses ban child labor in countries where families depend on their children’s wages to survive? Companies must address these questions individually, bringing together their own values with the laws of both the United States and their host countries.

The most socially responsible companies establish codes of conduct for their vendors, setting clear policies for human rights, wages, safety, and environmental impact. In 1991, Levi Strauss became the first global company to establish a comprehensive code of conduct for its contractors. Over the years, creative thinking has helped it maintain its high standards, even in the face of cultural clashes. An example from Bangladesh, outlined in the Harvard Business Review, illustrates its preference for win-win solutions. In the early 1990s, Levi Strauss “discovered that two of its suppliers in Bangladesh were employing children under the age of 14—a practice that violated the company’s principles but was tolerated in Bangladesh. Forcing the suppliers to fire the children would not have ensured that the children received an education, and it would have caused serious hardship for the families depending on the

Going Green—It's Not Just Governments

While governments and grassroots groups around the world have led the global push to “go green,” make no mistake, multinational businesses have played a leadership role as well, making major contributions to the greening of the planet. Some examples:

- Bank of America reduced paper use by 32% from 2000 to 2005, despite a 24% growth in its customer base. Bank of America also runs an internal recycling program that recycles 30,000 tons of paper each year, good for saving roughly 200,000 trees for each year of the program’s operation.
- While no one can argue that bottled water is an environmentally sound business in the developed world, Arrowhead bottled water—owned by Nestle—introduced smaller, “Eco Shape” bottles that helped them save 245 million pounds of plastic resin over the last decade, plus shorter labels that have saved almost ten million pounds of paper per year in the U.S. (versus their previous label), which equates to saving about 30,000 trees per year.
- DuPont, not historically known for earth-friendly practices, successfully reduced greenhouse gas emissions during the ’90s by 63%—far ahead of the timetable set forth in the controversial Kyoto Protocol.
- Anheuser-Busch now saves 21 million pounds of metal per year by trimming an eighth of an inch off the diameter of its beer cans without reducing the volume of beer “one bit.”
- By opting to use coffee-cup sleeves made of recycled paper, Starbucks has saved roughly 78,000 trees per year since 2006.
- Tesla Motors is developing environmentally friendly sports cars that offer blazing speed and formidable power with virtually no emissions.
- Hewlett-Packard owns gigantic e-waste recycling plants that reclaim not just steel and plastic but also toxic chemicals like mercury. HP takes back any brand of equipment, not just its own 100% recyclable machines. HP also audits its top suppliers for eco-friendliness.

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children's wages. In a creative arrangement, the suppliers agreed to pay the children's regular wages while they attended school and to offer each child a job at age 14. Levi Strauss, in turn, agreed to pay the children's tuition and provide books and uniforms. This creative solution allowed the suppliers to maintain their valuable contracts from Levi Strauss, while Levi Strauss upheld its values and improved the quality of life for its most vulnerable workers.23

Clearly, codes of conduct work best with monitoring, enforcement, and a commitment to finding solutions that work for all parties involved. Gap Inc. offers an encouraging example. In 1996, Gap published a rigorous Code of Vendor Conduct and required compliance from all of their vendors. Its vendor-compliance officers strive

everyday Americans buy 62 million newspapers and throw out 44 million. That's the equivalent of dumping 500,000 trees into a landfill every week.

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to visit each of its 3,000 factories at least once a year. They have uncovered a troubling number of violations, proactively pulling contracts from serious violators and rejecting bids from suppliers who don't meet their standards.

Gap and Levi Strauss seem to be doing their part, but the world clearly needs universal standards and universal enforcement to ensure that the benefits of globalization don't come at the expense of the world's most vulnerable people.24

LO6 Monitoring Ethics and Social Responsibility: Who Is Minding the Store?

Actually, many firms are monitoring themselves. The process is called a social audit: a systematic evaluation of how well a firm is meeting its ethics and social responsibility objectives. Establishing goals is the starting point for a social audit, but the next step is to determine how to measure the achievement of those goals, and measurement can be a bit tricky. As You Sow, an organization dedicated to promoting corporate social responsibility, recommends that companies measure their success by evaluating a “double bottom line,” one that accounts for traditional financial indicators, such as earnings, and one that accounts for social-responsibility indicators, such as community involvement.

Other groups are watching as well, which helps keep businesses on a positive track. Activist customers, investors, unions, environmentalists, and community groups all play a role. In addition, the threat of government legislation keeps some industries motivated to self-regulate. One example would be the entertainment industry, which uses a self-imposed rating system for both movies and TV, largely to fend off regulation. Many people argue that the emergence of salads at fast-food restaurants represents an effort to avoid regulation as well.

Choosing Between a Loaf of Bread and a Packet of Shampoo
Three-quarters of the world's population—nearly 4 billion people—earn less than $2 per day. But C.K. Prahalad, a well-respected consultant and economist, claims that if the “aspirational poor” had a chance to consume, they could add about $13 trillion in annual sales to the global economy. Unilever, a global marketing company headquartered in Europe, has aggressively pursued this market with consumer products. Their customers might not have electricity, running water, or even enough for dinner, but many of them do have packets of Sunsilk shampoo and Omo detergent. Electronics companies have experienced marketing success as well. In Dharavi, for instance—one of the largest urban slums in India—more than 85% of households own a television set.

Critics suggest that the corporate push to reach impoverished consumers will enrich multinationals at the expense of their customers, representing exploitation of the world’s poorest people. Ashvin Dayal, East Asia director for the antipoverty group Oxfam UK, expressed concern to *Time* magazine that corporate marketing might unseat locally produced products or encourage overspending by those who truly can’t afford it. Citing heavily marketed candy and soda, he points out that “companies have the power to create needs rather than respond to needs.”

But Prahalad counters that many people at the bottom of the economic pyramid accept that some of the basics—running water, for instance—are not likely to ever come their way. Instead, they opt to improve their quality of life through affordable “luxuries,” such as single-use sachets of fragrant shampoo. He argues that “It’s absolutely possible to do very well while doing good.” Furthermore, he suggests that corporate marketing may kick-start the poorest economies, triggering entrepreneurial activity and economic growth. Since globalization shows no signs of slowing, let’s hope that he’s right.25

What do you think? Is targeting the poor with consumer goods exploitation or simply smart marketing?

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The Big Picture

Clearly, the primary goal of any business is to earn long-term profits for its investors. But profits alone are not enough. As active participants in society, firms must also promote ethical actions and social responsibility throughout their organizations and their corresponding customer and supplier networks. Although every area matters, a few warrant special mention:

- In tough economic times, effective business leaders focus more than ever on integrity, transparency, and a humane approach to managing the workforce—especially during cutbacks.
- Building or maintaining a presence in foreign markets requires particularly careful attention to human rights and local issues.
- Sustainable development and other environmentally sound practices are not only fiscally prudent and customer-friendly, but
also crucial for the health of our planet.

**Careers in Business Ethics and Social Responsibility**

Virtually all organizations seek to hire individuals with a proven track record of ethical behavior, and a strong commitment to integrity in both their personal decision making and actions. But over the past two decades, a number of large corporations—such as BellSouth, Dell, Dow, and Xerox—have established separate offices of ethics and compliance, offering a new career track for professionals eager to work specifically in the field of ethics. Offices of ethics and compliance can focus on a number different areas, but key areas of interest typically include mitigating employee-filed lawsuits, monitoring employee use of the Internet, overseeing corporate compliance with legislation, and taking steps to ensure that the corporate code of ethics moves “off the walls and into the halls.” Qualifications for these positions often include education and experience in human resource management, accounting, or law. Many large corporations, such as Disney, Target, and Hasbro, also hire social responsibility professionals, often focused on sustainability and environmental initiatives, or auditing factories—typically foreign factories—to ensure compliance with company standards and local laws. These positions almost always require at least a four-year degree and exceptional communication skills.

**What else?**

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**Business Ethics and Social Responsibility: Doing Well by Doing Good: Rip and Review 4**

**LO1 Define ethics and explain the concept of universal ethical standards**

Ethics is a set of beliefs about right and wrong, good and bad. Who you are as a human being, your family, and your culture all play a role in shaping your ethical standards. The laws of each country usually set minimum ethical standards, but truly ethical standards typically reach beyond minimum legal requirements. Despite some significant cultural and legal differences, people around the globe tend to agree on core values, which can serve as a starting point for universal ethical standards across a wide range of situations: trustworthiness, respect, responsibility, fairness, caring, and citizenship.
LO2 Describe business ethics and ethical dilemmas

Business ethics is the application of right and wrong, good and bad, in a business setting. Ethical dilemmas arise when you face business decisions that throw your values into conflict. These are decisions that force you to choose among less-than-ideal options because whatever choice you make will have some significant negative consequences.

LO3 Discuss how ethics relates to both the individual and the organization

Ethical choices begin with ethical individuals. To help people make good choices, experts have developed frameworks for reaching ethical decisions. While the specifics vary, the core principles of most decision guides are similar:

- Do you fully understand each dimension of the problem?
- Who would benefit? Who would suffer?
- Are the alternative solutions legal? Are they fair?
- Does your decision make you comfortable at a “gut feel” level?
- Could you defend your decision on the nightly TV news?
- Have you considered and reconsidered your responses to each question?

While each person is responsible for his or her own actions, the organization can also have a dramatic influence on the conduct of individual employees. An ethical culture—which includes ethical leadership from top executives, and accountability at every level of the organization—has an outsized impact on individual conduct. But formal ethics programs also play a crucial role. A written code of ethics—a document that lays out the values and priorities of the organization—is the cornerstone of a formal ethics program. Other key elements include ethics training and a clear enforcement policy for ethical violations.

LO4 Define social responsibility and examine the impact on stakeholder groups

Social responsibility is the obligation of a business to contribute to society. Enlightened companies carefully consider the priorities of all stakeholders—groups who have an interest in their actions and performance—as they make key decisions. Core stakeholder groups for most businesses are listed below, along with key obligations.

- **Employees**: Treat employees with dignity, respect, and fairness. Ensure that hard work and talent pay off. Help workers balance emerging work-life priorities.
- **Customers**: Provide quality products at a fair price. Ensure that customers are safe and informed. Support consumer choice
and consumer dialogue.

- **Investors:** Create an ongoing stream of profits. Manage investor dollars according to the highest legal and ethical standards. Support full disclosure.

**Ethics** A set of beliefs about right and wrong, good and bad.

**Universal Ethical Standards** Ethical norms that apply to all people across a broad spectrum of situations.

**Business Ethics** The application of right and wrong, good and bad, in a business setting.

**Ethical Dilemma** A decision that involves a conflict of values; every potential course of action has some significant negative consequences.

**Code of Ethics** A formal, written document that defines the ethical standards of an organization and gives employees the information they need to make ethical decisions across a range of situations.

**Whistle-blowers** Employees who report their employer's illegal or unethical behavior to either the authorities or the media.

**Social Responsibility** The obligation of a business to contribute to society.

**Stakeholders** Any groups that have a stake—or a personal interest—in the performance and actions of an organization.

**Consumerism** A social movement that focuses on four key consumer rights: (1) the right to be safe, (2) the right to be informed, (3) the right to choose, and (4) the right to be heard.

**Planned Obsolescence** The strategy of deliberately designing products to fail in order to shorten the time between purchases.

**Sarbanes-Oxley Act of 2002** Federal legislation passed in 2002 that sets higher ethical standards for public corporations and accounting firms. Key provisions limit conflict-of-interest issues and require financial officers and CEOs to certify the validity of their financial statements.

**Corporate Philanthropy** All business donations to nonprofit groups, including money, products, and employee time.

**Cause-Related Marketing** Marketing partnerships between businesses and nonprofit organizations, designed to spike sales for the company and raise money for the nonprofit.

**Corporate Responsibility** Business contributions to the community through the actions of the business itself rather than donations of money and time.

**Sustainable Development** Doing business to meet the needs of the current generation, without harming the ability of future generations to meet their needs.

**Carbon Footprint** Refers to the amount of harmful greenhouse gases that a firm emits throughout its operations, both directly and indirectly.

**Green Marketing** Developing and promoting environmentally sound products and practices to gain a competitive edge.

**Social Audit** A systematic evaluation of how well a firm is meeting its ethics and social responsibility goals.

- **Community:** Support nonprofit groups that improve the community and fit with your company. Minimize the negative environmental impact of your business.
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LO5 Explain the role of social responsibility in the global arena

Social responsibility becomes more complex in the global arena, largely due to differences in the legal and cultural environments. Bribery and corruption are key issues, along with concern for human rights and environmental standards.


LO6 Describe how companies evaluate their efforts to be socially responsible

Many companies—even some entire industries—monitor themselves. The process typically involves establishing objectives for ethics and social responsibility and then measuring achievement of those objectives on a systematic, periodic basis. Other groups play watchdog roles as well. Key players include activist customers, investors, unions, environmentalists, and community groups.
Footnotes


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