chapter

5 Ethics and Corporate Responsibility

It is truly enough said that a corporation has no conscience; but a corporation of conscientious men is a corporation with a conscience.

— Henry David Thoreau

LEARNING OBJECTIVES

After studying Chapter 5, you will be able to:

LO 1 Describe how different ethical perspectives guide decision making. p. 165

LO 2 Explain how companies influence their ethics environment. p. 167

LO 3 Outline a process for making ethical decisions. p. 173

LO 4 Summarize the important issues surrounding corporate social responsibility. p. 175

LO 5 Discuss reasons for businesses' growing interest in the natural environment. p. 180

LO 6 Identify actions managers can take to manage with the environment in mind. p. 181

CHAPTER OUTLINE

Management Close-Up

CAN MICHAEL DUKE MAINTAIN WAL-MART'S SUSTAINABILITY DRIVE?

At one time, if people used the word "green" to describe Wal-Mart, they were probably referring to the color of money. The world's largest retailer, Wal-Mart posted annual revenues of $400 billion—an amount greater than the gross domestic product of many countries. Operating 7,000 stores worldwide, Wal-Mart has commanded the number-one position on the *Fortune* 500 list nearly every year since 2002, with a workforce of over 2 million people—larger than the population of Philadelphia.

But now, when people use the word "green" to describe Wal-Mart, chances are they're talking about the environmental legacy of H. Lee Scott, who became the company's CEO in 2000 before retiring in 2009 and being succeeded by Michael Duke. Some believe Wal-Mart's environmental transformation began in the aftermath of Hurricane Katrina in late summer of 2005. After providing millions in cash donations and orchestrating a hands-on rescue program for disaster victims, Wal-Mart leaders began to realize how a company of its size had great potential to make a difference.

{ Wal-Mart and its practices have often been debated. The company's focus on the bottom line opened it to criticism on many fronts. Yet, the company has vowed to become a good corporate citizen. As you read this chapter, think about what Wal-Mart will need to do, going forward, to meet its aggressive environmental goals. }

This was a wake-up call, says former CEO Scott. "What struck us was: This world is much more fragile than any of us thought years ago." In an October 2005 speech broadcast to all company employees, Scott announced that Wal-Mart would begin a new sustainability strategy with three ambitious goals:

1. To be supplied 100 percent by renewable energy.
2. To create zero waste.
3. To sell only products that sustain Wal-Mart's resources—and the environment's.

Although Scott set no deadline for achieving those goals, he promised the company would soon begin working toward them. Thereafter, Wal-Mart engaged environmental groups, trade associations, and academics in conversations to educate itself and create a blueprint for long-term change. Scott's bold pronouncement surprised many people—particularly its army of suppliers worldwide. What would an "eco-friendly" Wal-Mart mean for them?[1]

For years, Wal-Mart has been a company its critics have loved to hate. As the retailer grew, so did the size of its stores. Many of its stores average 100,000 to 250,000 square feet, all of which must be heated, cooled, and well lit. The company's global supply and shipping systems operate on a monumental scale—using energy for shipping, trucking fleets, and distribution centers. But Wal-Mart has surprised many of its longtime critics by embracing the value that, as the world's largest retailer, it has not only the capacity but also an obligation to behave responsibly.

This chapter addresses the values and manner of doing business adopted by managers as they carry out their corporate and business strategies. In particular, we will explore ways of applying **ethics,** the system of rules that governs the ordering of values. We do so based on the premise that managers, their organizations, and their communities thrive over the long term when the managers apply ethical standards that direct them to act with integrity. In addition, we consider the idea that organizations may have a responsibility to meet social obligations beyond earning profits within legal and ethical constraints. As you study this chapter, consider what kind of manager you want to be. What reputation do you hope to have? How would you like others to describe your behavior as a manager?

ethics

The system of rules that governs the ordering of values.

It's a Big Issue

Recent scandals have engulfed company executives, independent auditors, politicians and regulators, and shareholders and employees.[2] In some, executives at public companies have made misleading statements to inflate stock prices, undermining the public's trust in the integrity of the financial markets. Often, the scandals are perpetrated by a number of people cooperating with one another, and many of the guilty parties had been otherwise upstanding individuals. Lobbyists have been accused—and some convicted—of buying influence with lavish gifts to politicians. Executives have admitted they received huge bonuses or stock options that were backdated to guarantee they would make money from investing in their company, regardless of whether their performance caused the stock's value to rise or fall. What other news disturbs you about managers' behavior? Tainted products in the food supply . . . actions that harm the environment . . . Internet scams . . . employees pressured to meet sales or production targets by any means? The list goes on, and the public becomes cynical. According to a survey by the public relations firm Edelman, people are often suspicious of their own company's management; only 31 percent said they trust their own CEO.[3] Try to imagine the challenge of leading employees who don't trust you.

Bernard Madoff was convicted for running a multibillion-dollar ponzi scheme. He was sentenced to 150 years in prison for fraud that totaled an estimated $65 billion. The incident has been referred to as the largest white-collar fraud in history.

Sadly, when corporations behave badly, it's often not the top executives but the rank-and-file employees who suffer most. When companies such as energy trader Enron and insurance brokerage firm Marsh & McLennan saw their stocks tumble following scandals, executives had millions invested from generous pay and bonus packages. In contrast, employees, who had been encouraged to invest their retirement packages heavily in their company's stock, saw their savings disappear along with their company's reputation.

Still, simply talking about Enron and other famous cases as examples of lax company ethics doesn't get at the heart of the problem. Clearly, these cases involve "bad guys," and the ethical lapses are obvious. But saying, "I would never do things like that," becomes too easy. The fact is that temptations exist in every organization. Many of the decisions you will face as a manager will pose ethical dilemmas, and the right thing to do is not always evident.

It's a Personal Issue

"Answer true or false: 'I am an ethical manager.' If you answered 'true,' here's an uncomfortable fact: You're probably not."[4] These sentences are the first in a *Harvard Business Review* article called "How (Un)Ethical Are You?" The point is that most of us think we are good decision makers, ethical, and unbiased. But the fact is, most people have unconscious biases that favor themselves and their own group. For example, managers often hire people who are like them, think they are immune to conflicts of interest, take more credit than they deserve, and blame others when they deserve some blame themselves.

To know that you have biases may help you try to overcome them, but usually that's not enough. Consider the basic ethical issue of telling a lie. Many people lie—some more than others, and in part depending on the situation, usually presuming that they will benefit from the lie. At a basic level, we all can make ethical arguments against lying and in favor of honesty. Yet it is useful to think thoroughly about the real consequences of lying.[5] Table 5.1 summarizes the possible outcomes of telling the truth or lying in different situations. People often lie or commit other ethical transgressions somewhat mindlessly, without realizing the full array of negative personal consequences.

TABLE 5.1 Telling the Truth and Lying: Possible Outcomes

Reason and Context of the Lie	Results of Lying	Results of Truth-telling
Conflicting expectations	• Easier to lie than to address the underlying conflict. • Offers quick relief of the issue. • Leaves the underlying problem unresolved. • May have no meaningful consequences, good or bad. • Liar must rationalize the action to preserve positive self-concept.	• Emotionally more difficult than lying. • May correct underlying problem. • May provoke further conflict. • Sometimes difficult to have an impact on an impermeable structure. • Develops one's reputation as an "honest" person.
Negotiation	• Short-term gain. • Economically positive. • Harms long-term relationship. • Must rationalize to oneself.	• Supports high-quality long-term relationship. • Develops reputation of integrity. • Models behavior to others.
Keeping a confidence (that may require at least a lie of omission)	• Protects whatever good reason there is for the confidence. • Maintains a long-term relationship with the party for whom confidence is kept. • May project deceitfulness to the deceived party.	• Violates a trust to the confiding party. • Makes one appear deceitful to all parties in the long run. • Creates the impression of honesty beyond utility.
Reporting your own performance within an organization	• Might advance oneself or one's cause. • Develops dishonest reputation over time. • Must continue the sequence of lies to appear consistent.	• Creates reputation of integrity. • May not always be positive.

SOURCE: From *Academy of Management Executive: The Thinking Manager's Source* by S.L. Gover, "The Truth, the Whole Truth, and Nothing but the Truth: The Causes and Management of Workplace Lying." Copyright © 2005 by Academy of Management via Copyright Clearance Center.

Ethics issues are not easy, and they are not just for newsworthy corporate CEOs. More and more people at work use computers with Internet access. If the employer pays for the computer and the time you spend sitting in front of it, is it ethical for you to use the computer to do tasks unrelated to your work? Maybe you think it's OK to do a little online shopping during your lunch hour or to check scores during the World Series or March Madness. But what if you stream video of the games for your own and your coworkers' enjoyment or take a two-hour lunch to locate the best deal on a flat-panel TV?

Besides lost productivity, employers are most concerned about computer users introducing viruses, leaking confidential information, and creating a hostile work environment by downloading inappropriate Web content.

Sometimes employees write blogs or post comments online about their company and its products. Obviously, companies do not want their employees to say bad things about them, but some companies are concerned about employees who are overly enthusiastic. When employees plug their companies and products on comments pages, this practice is considered spamming at best and deceptive if the employees don't disclose their relationship with their company. Another practice considered deceptive is when companies create fictional blogs as a marketing tactic without disclosing their sponsorship. And in a practice known as Astroturfing—because the "grassroots" interest it builds is fake—businesses pay bloggers to write positive comments about them. A Florida company known as PayPerPost will match advertisers with bloggers but now requires bloggers to disclose the relationship. Companies such as Coca-Cola, UPS, and IBM have established guidelines directing employees to identify themselves accurately in online communications so that they can participate in online conversations about their companies without being accused of deception.[6]

Here's a small but potentially powerful suggestion.[7] Change your vocabulary: The word "ethics" is too loaded, even trite. Substitute "responsibility" or "decency." And act accordingly.

ethical issue

Situation, problem, or opportunity in which an individual must choose among several actions that must be evaluated as morally right or wrong.

Are these examples too small to worry about? This chapter will help you think through decisions with ethical ramifications.

Ethics

The aim of ethics is to identify both the rules that should govern people's behavior and the "goods" that are worth seeking. Ethical decisions are guided by the underlying values of the individual. Values are principles of conduct such as caring, being honest, keeping promises, pursuing excellence, showing loyalty, being fair, acting with integrity, respecting others, and being a responsible citizen.[8]

Most people would agree that all of these values are admirable guidelines for behavior. However, ethics becomes a more complicated issue when a situation dictates that one value overrules others. An **ethical issue** is a situation, problem, or opportunity in which an individual must choose among several actions that must be evaluated as morally right or wrong.[10] Ethical issues arise in every facet of life; we concern ourselves here with business ethics in particular. **Business ethics** comprises the moral principles and standards that guide behavior in the world of business.[11]

Are women more ethical than men? Studies have implied they are, at least by some measures. Surveys of business students found an increase in their interest in studying ethics, with a greater increase among women. Compared with their female counterparts, undergraduate male students in business and psychology showed stronger unethical attitudes and a tendency to behave unethically. When business students took an ethics curriculum, women made greater strides than men in improving their moral awareness and decision-making processes.[9]

business ethics

The moral principles and standards that guide behavior in the world of business.

Ethical Systems

LO 1

Moral philosophy refers to the principles, rules, and values people use in deciding what is right or wrong. This is a simple definition in the abstract but often terribly complex and difficult when facing real choices. How do you decide what is right and wrong? Do you know what criteria you apply and how you apply them?

Employees sometimes feel that "borrowing" a few office supplies from their company helps compensate for any perceived inequities in pay or other benefits.

Ethics scholars point to various major ethical systems as guides.[12] The first ethical system, **universalism,** states that all people should uphold certain values, such as honesty, that society needs to function. Universal values are principles so fundamental to human existence that they are important in all societies—for example, rules against murder, deceit, torture, and oppression.

Some efforts have been made to establish global, universal ethical principles for business. The Caux Roundtable, a group of international executives based in Caux, Switzerland, worked with business leaders from Japan, Europe, and the United States to create the **Caux Principles.** Two basic ethical ideals underpin the Caux Principles: *kyosei* and human dignity. *Kyosei* means living and working together for the common good, allowing cooperation and mutual prosperity to coexist with healthy and fair competition. Human dignity concerns the value of each person as an end, not a means to the fulfillment of others' purposes.

Universal principles can be powerful and useful, but what people say, hope, or think they would do is often different from what they *really* do, faced with conflicting demands in real situations. Before we describe other ethical systems, consider the following example, and think about how you or others would resolve it.

moral philosophy

Principles, rules, and values people use in deciding what is right or wrong.

universalism

The ethical system stating that all people should uphold certain values that society needs to function.

Caux Principles

Ethical principles established by international executives based in Caux, Switzerland, in collaboration with business leaders from Japan, Europe, and the United States.

Suppose that Sam Colt, a sales representative, is preparing a sales presentation on behalf of his firm, Midwest Hardware, which manufactures nuts and bolts. Colt hopes to obtain a large sale from a construction firm that is building a bridge across the Missouri River near St. Louis. The bolts manufactured by Midwest Hardware have a 3 percent defect rate, which, although acceptable in the industry, makes them unsuitable for use in certain types of projects, such as those that might be subject to sudden, severe stress. The new bridge will be located near the New Madrid Fault line, the source of a major earthquake in 1811. The epicenter of that earthquake, which caused extensive damage and altered the flow of the Missouri, is about 190 miles from the new bridge site.

Bridge construction in the area is not regulated by earthquake codes. If Colt wins the sale, he will earn a commission of $25,000 on top of his regular salary. But if he tells the contractors about the defect rate, Midwest may lose the sale to a competitor whose bolts are slightly more reliable. Thus, Colt's ethical issue is whether to point out to the bridge contractor that in the event of an earthquake, some Midwest bolts could fail.

SOURCE: O. C. Ferrell and J. Fraedrich, *Business Ethics: Ethical Decision Making and Cases,* 3rd ed. Copyright © 1997 by Houghton Mifflin Company. Used with permission.

Not everyone would behave the same in this scenario. Different individuals would apply different moral philosophies. Consider each of the following moral philosophies and the actions to which they might lead in the bridge example.[13]

egoism

An ethical system defining acceptable behavior as that which maximizes consequences for the individual.

Egoism and Utilitarianism According to **egoism,** acceptable behavior is that which maximizes benefits for the individual. "Doing the right thing," the focus of moral philosophy, is defined by egoism as "do the act that promotes the greatest good for oneself." If everyone follows this system, according to its proponents, the well-being of society as a whole should increase. This notion is similar to Adam Smith's concept of the invisible hand in business. Smith argued that if every organization follows its own economic self-interest, the total wealth of society will be maximized.

utilitarianism

An ethical system stating that the greatest good for the greatest number should be the overriding concern of decision makers.

Unlike egoism, **utilitarianism** directly seeks the greatest good for the greatest number of people. Consider whether utilitarianism would help guide ethical decision making with regard to student loan programs. Recently, New York's attorney general, Andrew Cuomo, investigated 100 colleges and half a dozen lenders for arrangements in which the lenders allegedly offered payments, stock grants, and perks to schools, and the schools listed the companies as "preferred lenders" in information given to students who wanted to borrow tuition money from private sources. Cuomo called the arrangements "kickbacks"; some schools replied that they were not being corrupted but used the money to add to the financial aid they could award to students.[14]

Whereas ethics based on egoism would accept actions that allow the lenders to maximize their earnings and the financial aid officers to pursue whatever arrangements benefit themselves and their schools, utilitarianism requires a broader view. Most obviously, there is the question of what these arrangements cost students who make borrowing decisions on the assumption that "preferred" lenders will give students the best deals. But other students benefited if payments from lenders were used to augment the financial aid given to other students. The utilitarian approach might consider how many students benefited—and by how much—and how many students paid extra for loans and how much more they paid. One company responded to the allegations by agreeing to a code of conduct that forbids gifts in exchange for "preferred" status.[15]

relativism

Philosophy that bases ethical behavior on the opinions and behaviors of relevant other people.

Relativism

Perhaps it seems that an individual makes ethical choices on a personal basis, applying personal perspectives. But this is not necessarily the case. **Relativism** defines ethical behavior based on the opinions and behaviors of relevant other people. In the previous example of student loans, U.S. business, government, and society largely agree that bribes, kickbacks, and conflicts of interest would not be acceptable behaviors for people in the lending industry—perhaps even less so for those charged with serving students. Those standards help to explain the rapid actions taken by the organizations when they found out about the situation.

Relativism acknowledges the existence of different ethical viewpoints. For example, *norms*, or standards of expected and acceptable behavior, vary from one culture to another. A study of Russian versus U.S. managers found that all followed norms of informed consent about chemical hazards in work situations and paying wages on time. But in Russia more than in the United States, businesspeople were likely to consider the interests of a broader set of stakeholders (in this study, keeping factories open for the sake of local employment), to keep double books to hide information from tax inspectors and criminal organizations, and to make personal payments to government officials in charge of awarding contracts.[17] Relativism defines ethical behavior according to how others behave.

In a recent survey ranking 180 nations from most to least honest, the United States came in 18th (tied with Japan and Belgium). The U.S. rating of 7.3 on a 10-point scale placed it among only 22 countries that scored at least a 7.0. The top ratings went to Denmark, Sweden, and New Zealand, each with 9.3. The bottom-ranked nations, including Somalia, Myanmar, and Iraq, tend to be among the poorest. Sadly, the combination of corruption and poverty in these nations can literally amount to a death sentence for many of their citizens.[16]

virtue ethics

Classification of people based on their level of moral judgment.

Virtue ethics

The moral philosophies just described apply different types of rules and reasoning. **Virtue ethics** is a perspective that goes beyond the conventional rules of society by suggesting that what is moral must also come from what a mature person with good "moral character" would deem right. Society's rules provide a moral minimum, and then moral individuals can transcend rules by applying their personal virtues such as faith, honesty, and integrity.

Individuals differ in this regard. **Kohlberg's model of cognitive moral development** classifies people into categories based on their level of moral judgment.[18] People in the *preconventional* stage make decisions based on concrete rewards and punishments and immediate self-interest. People in the *conventional* stage conform to the expectations of ethical behavior held by groups or institutions such as society, family, or peers. People in the *principled* stage see beyond authority, laws, and norms and follow their self-chosen ethical principles.[19] Some people forever reside in the preconventional stage, some move into the conventional stage, and some develop further yet into the principled stage. Over time, and through education and experience, people may change their values and ethical behavior.

Kohlberg's model of cognitive moral development

Perspective that what is moral comes from what a mature person with "good" moral character would deem right.

Returning to the bolts-in-the-bridge example, *egoism* would result in keeping quiet about the bolts' defect rate. *Utilitarianism* would dictate a more thorough cost-benefit analysis and possibly the conclusion that the probability of a bridge collapse is so low compared to the utility of jobs, economic growth, and company growth that the defect rate is not worth mentioning. The *relativist* perspective might prompt the salesperson to look at company policy and general industry practice, and to seek opinions from colleagues and perhaps trade journals and ethics codes. Whatever is then perceived to be a consensus or normal practice would dictate action. Finally, *virtue ethics*, applied by people in the principled stage of moral development, would likely lead to full disclosure about the product and risks, and perhaps suggestions for alternatives that would reduce the risk.[20]

These major ethical systems underlie personal moral choices and ethical decisions in business.

Business Ethics

LO 2

Insider trading, illegal campaign contributions, bribery and kickbacks, famous court cases, and other scandals have created a perception that business leaders use illegal means to gain competitive advantage, increase profits, or improve their personal positions. Neither young managers nor consumers believe top executives are doing a good job of establishing high ethical standards.[21] Some even joke that *business ethics* has become a contradiction in terms.

Most business leaders believe they uphold ethical standards in business practices.[22] But many managers and their organizations must deal frequently with ethical dilemmas, and the issues are becoming increasingly complex. For example, many people seek spiritual renewal in the workplace, in part reflecting a broader religious awakening in America, while others argue that this trend violates religious freedom and the separation of church and boardroom.[23] Table 5.2 shows some other important examples of ethical dilemmas in business.

The Ethics Environment

Responding to a series of corporate scandals—particularly the high-profile cases of Enron and WorldCom—Congress passed the **Sarbanes-Oxley Act** in 2002 to improve and maintain investor confidence. The law requires companies to have more independent board directors (not just company insiders), to adhere strictly to accounting rules, and to have senior managers personally sign off on financial results. Violations could result in heavy fines and criminal prosecution. One of the biggest impacts of the law is the requirement for companies and their auditors to provide reports to financial statement users about the effectiveness of internal controls over the financial reporting process.

Sarbanes-Oxley Act

An act passed into law by Congress in 2002 to establish strict accounting and reporting rules in order to make senior managers more accountable and to improve and maintain investor confidence.

Companies that make the effort to meet or exceed these requirements can reduce their risks by lowering the likelihood of misdeeds and the consequences if an employee does break the law.[24] But some executives say Sarbanes-Oxley distracts from their real

TABLE 5.2
Some Ethical Issues in Business

Artistic control	Rock musicians, independent filmmakers, and other artists are rebelling against control by big media and retail companies.
Brands	In-your-face marketing campaigns have sparked antibrand attitudes among students.
CEO pay	Nearly three-fourths of Americans see executive pay packages as excessive.
Commercialism in schools	Parent groups have mounted battles in hundreds of communities against advertising in the public schools.
Consumerism	Anger and frustration are mounting over high gasoline and drug prices, poor airline service, and HMOs that override doctors' decisions.
Frankenfoods	Europeans' skepticism about genetically modified food is taking hold in the United States, making targets of companies such as Monsanto.
Globalization	Environmentalists, students, and unionists charge that global trade and economic bodies operate in the interests of multinational companies.
Politics	Public revulsion over the corporate bankrolling of politicians has energized campaign-finance reform activists.
Sweatshops	Anti-sweatshop groups have sprung up on college campuses; they routinely picket clothing manufacturers, toymakers, and retailers.
Urban sprawl	Groups in more than 100 cities have blocked big-box superstores by Wal-Mart and other chains.
Wages	Some 56 percent of workers feel they are underpaid, especially as wages since 1992 have topped inflation by 7.6 percent, while productivity is up 17.9 percent.

SOURCE: A. Bernstein, "Too Much Corporate Power?" *BusinessWeek*, September 11, 2000, pp. 146–47.

work and makes them more risk-averse. Some complain about the time and money needed to comply with the internal control reporting—some large companies have reported spending millions of dollars for technology upgrades. Regardless of managers' attitudes toward Sarbanes-Oxley, it creates legal requirements intended to improve ethical behavior.

Ethics are not shaped only by laws and by individual virtue. They also may be influenced by the company's work environment. Unethical corporate behavior may be the responsibility of an unethical individual, but it often also reveals a company culture that is ethically lax.[25] Maintaining a positive ethical climate is always challenging, but it is especially complex for organizations with international activities. Different cultures and countries may have different standards of behavior, and managers have to decide when relativism is appropriate, rather than adherence to firm standards. Table 5.3 gives examples of real situations where ethics-related decisions have arisen in an international context.

ethical climate
In an organization, the processes by which decisions are evaluated and made on the basis of right and wrong.

The **ethical climate** of an organization refers to the processes by which decisions are evaluated and made on the basis of right and wrong.[26] For example, General Electric's top executives have demonstrated a commitment to promoting high levels of integrity without sacrificing the company's well-known commitment to business results. The measures taken by GE to maintain a positive ethical climate include establishing global standards for behavior to prevent ethical problems such as conflicts of interest and money laundering. As managers monitor the external environment, they are expected to consider legal and ethical developments, along with other concerns, so

TABLE 5.3
Ethical Decision Making in the International Context

What would you do in each of these true-life situations, and why?
• You are a sales representative for a construction company in the Middle East. Your company wants very much to land a particular project. The cousin of the minister who will award the contract informs you that the minister wants $20,000 in addition to the standard fees. If you do not make this payment, your competition certainly will—and will get the contract.
• You are international vice president of a multinational chemical corporation. Your company is the sole producer of an insecticide that will effectively combat a recent infestation of West African crops. The minister of agriculture in a small, developing African country has put in a large order for your product. Your insecticide is highly toxic and is banned in the United States. You inform the minister of the risks of using your product, but he insists on using it and claims it will be used "intelligently." The president of your company believes you should fill the order, but the decision ultimately is yours.
• You are a new marketing manager for a large automobile tire manufacturer. Your company's advertising agency has just presented plans for introducing a new tire into the Southeast Asia market. Your tire is a truly good product, but the proposed advertising is deceptive. For example, the "reduced price" was reduced from a hypothetical amount that was established only so it could be "reduced," and claims that the tire was tested under the "most adverse" conditions ignore the fact that it was not tested in prolonged tropical heat and humidity. Your superiors are not concerned about deceptive advertising, and they are counting on you to see that the tire does extremely well in the new market. Will you approve the ad plan?

SOURCE: N. Adler, *International Dimensions of Organizational Behavior,* 2nd ed. (Boston: Kent, 1997).

that the company can be prepared for new issues as they arise. Managers at all levels are rewarded for their performance in meeting both integrity and business standards, and when violations occur, even managers who were otherwise successful are disciplined, sending a powerful message that ethical behavior is truly valued at GE.[27]

Danger Signs Maintaining consistent ethical behavior by all employees is an ongoing challenge. What are some danger signs that an organization may be allowing or even encouraging unethical behavior? Many factors create a climate conducive to unethical behavior, including

1. Excessive emphasis on short-term revenues over longer-term considerations.
2. Failure to establish a written code of ethics.
3. A desire for simple, "quick fix" solutions to ethical problems.
4. An unwillingness to take an ethical stand that may impose financial costs.
5. Consideration of ethics solely as a legal issue or a public relations tool.
6. Lack of clear procedures for handling ethical problems.
7. Responding to the demands of shareholders at the expense of other constituencies.[28]

Do you see danger signs for AutoAdmit? The small company operates a message board Web site targeting college and law school students. Some students have complained that participants on the site's law school message board have posted false and insulting messages about them that have humiliated them and may have interfered with their ability to find summer internships. Many employers use Internet searches as part of their background checks, and sites such as AutoAdmit might surface in search results. AutoAdmit founder Jarret Cohen told the *Washington*

Ethical climate is heating up! Former Enron treasurer Ben Glisan, Jr. pleaded guilty to conspiracy and became the first ex-Enron executive to go to prison. Former Enron executives Jeff Skilling and Ken Lay were later arrested for their participation in the high-profile scandal case that led to the passage of the Sarbanes-Oxley Act in 2002. This case is considered to be one of the biggest business scandals in U.S. history.

Post that he is reluctant to interfere with postings: "I want [the message board] to be a place where people can express themselves freely." He and his partner, Anthony Ciolli, define the matter in terms of free speech, insisting that "one finds overall a much deeper and much more mature level of insight in a community where the ugliest depths of human opinion are confronted, rather than ignored." Ciolli claims that only Cohen has the authority to remove offensive postings, and Cohen refuses to "selectively remove" comments. The site also does not keep information that would identify participants, using only screen names, because "people would not have as much fun" if employers could identify them. Ciolli and Cohen have so far avoided any accusation that their message boards are violating the law; AutoAdmit isn't liable for the content of messages written by visitors to the site.[29] But what do you think about the organization's ethical climate? Should it uphold values other than freedom of expression?

It's been said that your reputation is your most precious asset. Here's a suggestion: Set a goal for yourself to be seen by others as both a "moral person" and also as a "moral manager," someone who influences others to behave ethically. When you are both personally moral and a moral manager, you will truly be an **ethical leader.**[30] You can have strong personal character, but if you pay more attention to other things, and ethics is "managed" by "benign neglect," you won't have a reputation as an ethical leader.

ethical leader

One who is both a moral person and a moral manager influencing others to behave ethically.

Corporate Ethical Standards To create a culture that encourages ethical behavior, managers must be more than ethical people. They also should lead others to behave ethically.[31] At General Electric, chief executive Jeffrey Immelt demonstrates his concern for ethical leadership by beginning and ending each annual meeting with a statement of the company's integrity principles, emphasizing that "GE's business success is built on our reputation with all stakeholders for lawful and ethical behavior." These words are backed up with a reward system in which managers are evaluated for how well they meet ethics-related standards such as the use of audits, minimal customer complaints and lawsuits, avoidance of compliance actions by government regulators, and high ratings on employee surveys.[32]

Imagine a manager of a used-car dealership working hard to personify ethical business practices, for and with both his customers and his employees.[33] This would create a powerful competitive advantage compared with the industry's reputation (or at least the common stereotype) for shady practices.

IBM uses a guideline for business conduct that asks employees to determine whether under the full glare of examination by associates, friends, and family, they would remain comfortable with their decisions. One suggestion is to imagine how you would feel if you saw your decision and its consequences on the front page of the newspaper.[34] This "light of day" or "sunshine" ethical framework can be powerful.

Such fear of exposure compels people more strongly in some cultures than in others. In Asia, anxiety about losing face often makes executives resign immediately if they are caught in ethical transgressions or if their companies are embarrassed by revelations in the press. By contrast, in the United States, exposed executives might respond with indignation, intransigence, pleading the Fifth Amendment, stonewalling, an everyone-else-does-it self-defense, or by not admitting wrongdoing and giving no sign that resignation ever crossed their minds. Partly because of legal tradition, the attitude often is: Never explain, never apologize, don't admit the mistake, do not resign, even if the entire world knows exactly what happened.[35]

Ethics Codes The Sarbanes-Oxley Act requires that public companies periodically disclose whether they have adopted a code of ethics for senior financial officers—and if not, why not. Often, the statements are just for show, but when implemented well they can change a company's ethical climate for the better and truly encourage ethical behavior. Executives say they pay most attention to their company's code of ethics when they feel that stakeholders (customers, investors, lenders, and suppliers) try to influence them to do so, and their reasons for paying attention to the code are that doing so will help create a strong ethical culture and promote a positive image.[36]

Ethics codes must be carefully written and tailored to individual companies' philosophies. Aetna Life & Casualty believes that tending to the broader needs of society is essential to fulfilling its economic role. Johnson & Johnson has one of the most famous ethics codes; it is featured in Table 5.4. J&J consistently receives high rankings for community and social responsibility in *Fortune*'s annual survey of corporate reputations.

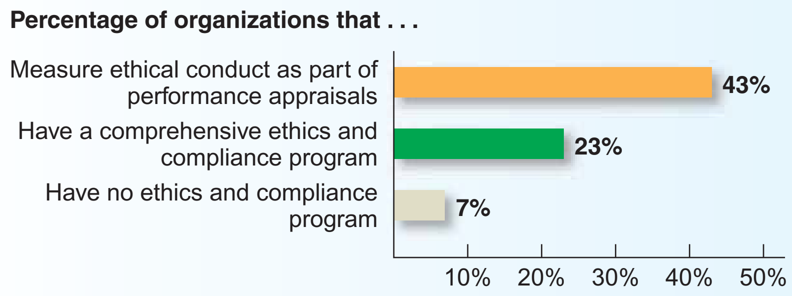
Most ethics codes address subjects such as employee conduct, community and environment, shareholders, customers, suppliers and contractors, political activity, and technology. Often the codes are drawn up by the organizations' legal departments and begin with research into other companies' codes. The Ethics Resource Center in Washington assists companies interested in establishing a corporate code of ethics.[37]

To make an ethics code effective, do the following: (1) involve those who have to live with it in writing the statement; (2) focus on real-life situations that employees can relate to; (3) keep it short and simple, so it is easy to understand and remember; (4) write about values and shared beliefs that are important and that people can really believe in; and (5) set the tone at the top, having executives talk about and live up to the statement.[38] When reality differs from the statement—as when a motto says people are our most precious asset or a product is the finest in the world, but in fact people are treated poorly or product quality is weak—the statement becomes a joke to employees rather than a guiding light.

The "sunshine" principle encourages employees to consider first if they would like to see their actions displayed on the front page of the newspaper. If yes, then it is likely an appropriate course of action.

Ethics Programs Corporate ethics programs commonly include formal ethics codes that articulate the company's expectations regarding ethics; ethics committees that develop policies, evaluate actions, and investigate violations; ethics communication systems that give employees a means of reporting problems or getting guidance; ethics officers or ombudspersons who investigate allegations and provide education; ethics training programs; and disciplinary processes for addressing unethical behavior.[39]

Although many companies have a code of ethics, far fewer have a comprehensive ethics program that includes training, channels for reporting violations, evaluation of ethical conduct, and discipline for violations.[40]



Ethics programs can range from compliance-based to integrity-based.[41] **Compliance-based ethics programs** are designed by corporate counsel to prevent, detect, and punish legal violations. Compliance-based programs increase surveillance and controls on people and impose punishments on wrongdoers. Program elements include establishing and communicating legal standards and procedures, assigning high-level managers to oversee compliance, auditing and monitoring compliance, reporting criminal misconduct, punishing wrongdoers, and taking steps to prevent offenses in the future.

compliance-based ethics programs

Company mechanisms typically designed by corporate counsel to prevent, detect, and punish legal violations.

Such programs should reduce illegal behavior and help a company stay out of court. But they do not create a moral commitment to ethical conduct; they merely ensure moral mediocrity. As Richard Breeden, former chairman of the Securities and Exchange Commission, said, "It is not an adequate ethical standard to aspire to get through the day without being indicted."[42]

TABLE 5.4
Johnson & Johnson's Ethics Code

We believe our first responsibility is to the doctors, nurses, and patients, to mothers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees: the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly, and safe. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development, and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well.

We must be good citizens—support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education.

We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed, and mistakes paid for. New equipment must be purchased, new facilities provided, and new products launched. Reserves must be created to provide for adverse times.

When we operate according to these principles, the stockholders should realize a fair return.

SOURCE: Reprinted with permission of Johnson & Johnson.

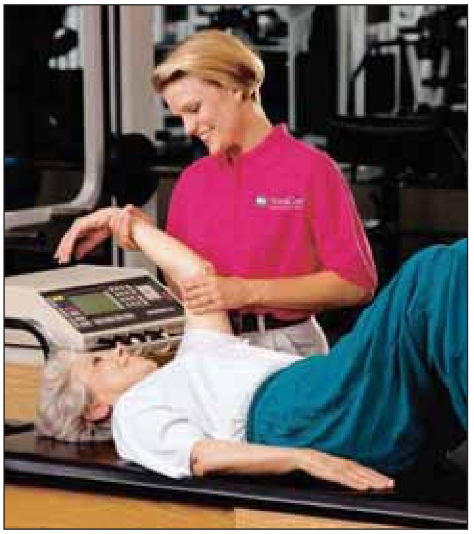
Yahoo! is struggling with an ethical dilemma as it makes decisions about how to operate in China. The Chinese government arrested Wang Xiaoning for "inciting subversion" in his prodemocracy e-journal and sentenced him to 10 years in prison. According to the case filed against Yahoo! in the United States, the Chinese subsidiary of Yahoo! that Wang used provided the information that enabled officials to track him down. How can an Internet company that values free expression justify support for a repressive government? Yahoo!'s Jim Cullinan points out that the company has to obey the laws of the countries where it operates but adds that the company has been trying to develop operating principles that will help its people make ethical decisions in countries where governments have different values.[43]

integrity-based ethics programs
Company mechanisms designed to instill in people a personal responsibility for ethical behavior.

Integrity-based ethics programs go beyond the mere avoidance of illegality; they are concerned with the law but also with instilling in people a personal responsibility for ethical behavior. With such a program, companies and people govern themselves through a set of guiding principles that they embrace.

For example, the Americans with Disabilities Act (ADA) requires companies to change the physical work environment so it will allow people with disabilities to function on the job. Mere compliance would involve making the changes necessary to avoid legal problems. Integrity-based programs would go further by training people to understand and perhaps change attitudes toward people with disabilities and sending clear signals that people with disabilities also have valued abilities. This effort goes far beyond taking action to stay out of trouble with the law.

When top management has a personal commitment to responsible ethical behavior, programs tend to be better integrated into operations, thinking, and behavior. For example, at a meeting of about 25 middle managers at a major financial services firm, every one of them told the company's general counsel that they had never seen or heard of the company's ethics policy document.[44] The policies existed but were not a part of the everyday thinking of managers. In contrast, a health care products company bases one-third of managers' annual pay raises on how well they carry out the company's ethical ideals. Their ethical behavior is assessed by superiors, peers, and subordinates—making ethics a thoroughly integrated aspect of the way the company and its people do business.



NovaCare is one company with a strong integrity-based ethics program.

Ethical Decision Making

We've said it's not easy to make ethical decisions. Such decisions are complex. For starters, you may face pressures that are difficult to resist. Furthermore, it's not always clear that a problem has ethical dimensions; they don't hold up signs that say "Hey, I'm an ethical issue, so think about me in moral terms!"[45] Making ethical decisions takes *moral awareness* (realizing the issue has ethical implications), *moral judgment* (knowing what actions are morally defensible), and *moral character* (the strength and persistence to act in accordance with your ethics despite the challenges).[46]

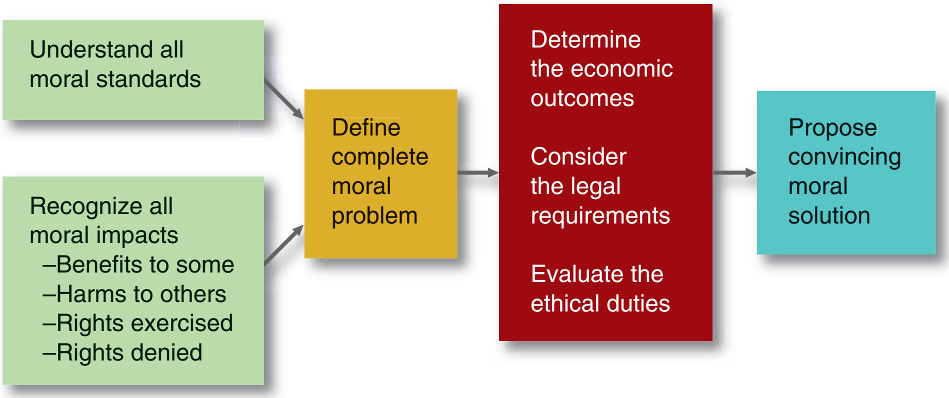
Moral awareness begins with considering whether a decision has ramifications that disadvantage employees, the environment, or other stakeholders. Then the challenge is to apply moral judgment.

LO 3

The philosopher John Rawls created a thought experiment based on the "veil of ignorance."[47] Imagine that you are making a decision about a policy that will benefit or disadvantage some groups more than others. For example, a policy might provide extra vacation time for all employees but eliminate flex time, which allows parents of young children to balance their work and family responsibilities. Or you're a university president considering raising tuition or cutting financial support for study abroad.

Now pretend that you belong to one of the affected groups, but you don't know which one—for instance, those who can afford to study abroad or those who can't, or a young parent or a young single person. You won't find out until after the decision is made. How would you decide? Would you be willing to risk being in the disadvantaged group? Would your decision be different if you were in a group other than your own? Rawls maintained that only a person ignorant of his own identity can make a truly ethical decision. A decision maker can tactically apply the veil of ignorance to help minimize personal bias.

To resolve ethical problems, you can use the process illustrated in Figure 5.1. Understand the various moral standards (universalism, relativism, etc.), as described on pp. 165–167. Go through the problem-solving model from Chapter 3, and recognize the impacts of your alternatives: which people do they benefit and harm, which



SOURCE: L. T. Hosmer, *The Ethics of Management,* 4th ed. (New York: McGraw-Hill/Irwin, 2003), p. 32. Fig. 5.1A. © 2003 The McGraw-Hill Companies.

FIGURE 5.1
A Process for Ethical Decision Making

are able to exercise their rights, and whose rights are denied? You now know the full scope of the moral problem.

Finding excuses and nationalizations for unethical behavior is easy. Only days after the U.S. government had posted $85 billion to keep insurance giant American International Group from collapsing, AIG sent executives on a luxurious retreat. When questioned about this, executives initially replied with excuses: the $440,000 spent was far, far less than the amount of the government bailout, and the executives who participated in the retreat did not work in the AIG division where the company's financial problems had originated. Eventually they had to concede that these responses did not really address the question of whether the retreat was an ethical use of company money at a time when the company—along with many of the taxpayers whose money was bailing out AIG—was undergoing an economic crisis.[48]

Excuses are often bogus.[49] "I was told to do it" implies a person has no thought and blindly obeys. "Everybody's doing it" often really means that someone is doing it, but it's rarely everybody; regardless, following convention doesn't mean correctness. "Might equals right" is just a rationalization. "It's not my problem" is sometimes a wise perspective, if it's a battle you can't win, but sometimes it's a cop-out. "I didn't mean for that to happen, it just felt right at the time" can be prevented with more forethought and analysis.

"Costs" aren't exactly synonymous with "ethics." But by considering all costs to all parties, you can make high-quality ethics decisions that you can more convincingly "sell" to others who might otherwise balk.

You must also consider legal requirements to ensure full compliance, and the economic outcomes of your options, including costs and potential profits. Figure 5.2 shows some of the costs associated with unethical behavior.[50] Some are obvious: fines and penalties. Others, like administrative costs and corrective actions, are less obvious. Ultimately, the effects on customers, employees, and government reactions can be huge. Being fully aware of the potential costs can help prevent people from straying into unethical terrain.

Courage

Behaving ethically requires not just moral awareness and moral judgment but also moral character, including the courage to take actions consistent with your ethical decisions. Think about how hard it can be to do the right thing.[51] On the job, how hard would it be to walk away from lots of money in order to "stick to your ethics"?

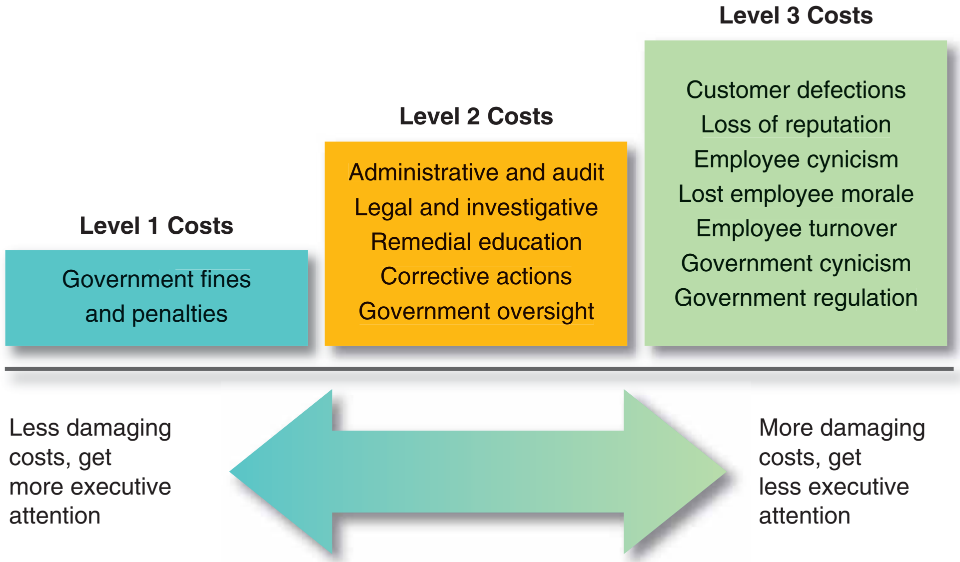


FIGURE 5.2
The Business Costs of Ethical Failures

SOURCE: From *Academy of Management Executive: The Thinking Manager's Source* by T. Thomas, et al., "Strategic Leadership of Ethical Behavior in Business." Copyright © 2004 by Academy of Management via Copyright Clearance Center.

To tell colleagues or your boss that you believe they've crossed an ethical line? To disobey a boss's order? To go over your boss's head to someone in senior management with your suspicions about accounting practices? To go outside the company to alert others if someone is being hurt and management refuses to correct the problem?

PepsiCo managers faced a difficult choice when an executive secretary from Coca-Cola Company's headquarters contacted them to offer confidential documents and product samples for a price. Rather than seek an unethical (and illegal) advantage, Pepsi's managers notified Coca-Cola. There, management fired the secretary and contacted the FBI. Eventually, the secretary and two acquaintances were convicted of conspiring to steal trade secrets.[52] PepsiCo still doesn't have the secret recipe for Coke, but it did maintain its reputation as a competitor with integrity. Choosing integrity took courage. Courage plays a role in the moral awareness involved in identifying an act as unethical, the moral judgment to fully consider the repercussions, and the moral character to take the ethical action.

Behaving ethically in an ethical climate is complicated enough, but even more courage is necessary when you decide that the only ethical course of action is *whistleblowing*—telling others, inside or outside the organization, of wrongdoing. The road for whistleblowers is rocky. Many, perhaps most, whistleblowers suffer consequences such as being ostracized, treated rudely, or given undesirable assignments. At a Canadian manufacturing company, an employee reported a manager who had an arrangement with suppliers to inflate their invoices; the manager took the extra cash, costing the company more than $100,000. When the other employees found out what had happened, instead of blaming the manager, they began to distrust the whistleblower. Eventually, she quit.[53]

From an organization's point of view, whistleblowing is either an asset or a threat, depending on the situation and management's perspective. In the example of the manager cheating the Canadian manufacturer, it was clearly to the company's advantage to know about the misdeeds so that management could stop the losses. But whistleblowing is a far different matter when employees take their complaints to government agencies, report them to the media, or post them on blogs. When problems are resolved in public, the whistleblower is more often seen as acting against the company's interests.

According to a study by the Association of Certified Fraud Examiners, companies that uncovered fraud most often learned about it from a coworker's tip, rather than from a formal audit.[54]

For this reason, and in response to the revised sentencing guidelines under the Sarbanes-Oxley Act, organizations set up channels for employees to report ethics problems so that the organization can respond without the matter becoming a scandal. Ideally, the reporting method should keep the whistleblower's identity secret, management should investigate and respond quickly, and there should be no retaliation against whistleblowers who use proper channels. Besides online reporting systems, such as e-mail and Web-based tools, companies can use drop boxes and telephone hotlines.[55]

Corporate Social Responsibility

LO 4

- Ford Motor Company fights HIV/AIDs in South Africa.
- Levi Strauss fights racism.
- Green Mountain Coffee promotes fair trade coffee around the world.
- Bank Boston fosters economic development in communities of moderate income and in the inner city.
- United Parcel Service works to help people on welfare find employment.
- McDonald's and Bank of America support sustainable development in a variety of strategic ways.[56]

Should business be responsible for social concerns beyond its own economic well-being? Do social concerns affect a corporation's financial performance? The extent of business's responsibility for noneconomic concerns has been hotly debated for years. In the 1960s and 1970s, the political and social environment became more important to U.S. corporations as society turned its attention to issues like equal opportunity, pollution control, energy and natural resource conservation, and consumer and worker protection.[57] Public debate addressed these issues and the ways business should respond to them. This controversy focused on the concept of corporate social responsibility.

corporate social responsibility (CSR)
Obligation toward society assumed by business.

Corporate social responsibility is the obligation toward society assumed by business.[58] Corporate social responsibility reflects the social imperatives and the social consequences of business success, and consists broadly of policies and practices that reflect business responsibility for some of the wider societal good. The precise policies and practices underlying this responsibility lie at the discretion of the corporation.[59]

economic responsibilities
To produce goods and services that society wants at a price that perpetuates the business and satisfies its obligations to investors.

Social responsibilities can be categorized more specifically,[60] as shown in Figure 5.3. The **economic responsibilities** of business are to produce goods and services that society wants at a price that perpetuates the business and satisfies its obligations to investors. For Smithfield Foods, the largest pork producer in the United States, this means selling bacon, ham, and other products to customers at prices that maximize Smithfield's profits and keep the company growing over the long term. Economic responsibility may also extend to offering certain products to needy consumers at a reduced price.

legal responsibilities
To obey local, state, federal, and relevant international laws.

ethical responsibilities
Meeting other social expectations, not written as law.

Legal responsibilities are to obey local, state, federal, and relevant international laws. Laws affecting Smithfield cover a wide range of requirements, from filing tax returns to meeting worker safety standards. **Ethical responsibilities** include meeting other societal expectations, not written as law. Smithfield took on this level of responsibility when it responded to requests by major customers, including McDonald's and Wal-Mart, that it discontinue the practice of using gestation crates to house its sows.

SOURCE: From *Academy of Management Executive: The Thinking Manager's Source* by A. Carroll, "Management Ethically with Global Stakeholders: A Present and Future Challenge." Copyright © 2004 by Academy of Management via Copyright Clearance Center.

FIGURE 5.3
Pyramid of Global Corporate Social Responsibility and Performance.

The customers were reacting to pressure from animal rights advocates who consider it cruel for sows to live in the two-foot by seven-foot crates during their entire gestation period, which means they cannot walk, turn around, or stretch their legs for months at a time. The practice had been to move the sows to a farrowing crate to give birth and then return them to the gestation crate soon after, when they became pregnant again. Smithfield planned to exchange the crates for "group housing," which allows the animals to socialize, even though group housing costs more.[61] Smithfield is not legally required to make the change (except in two states), and the arrangement may not maximize profits, but the company's actions help it maintain good customer relationships and a positive public image.

Finally, **philanthropic responsibilities** are additional behaviors and activities that society finds desirable and that the values of the business support. Examples include supporting community projects and making charitable contributions. Philanthropic activities can be more than mere altruism; managed properly, "strategic philanthropy" can become not an oxymoron but a way to build goodwill in a variety of stakeholders and even add to shareholder wealth.[62]

philanthropic responsibilities

Additional behaviors and activities that society finds desirable and that the values of the business support.

Robert Giacalone, who teaches business ethics at Temple University, believes that a 21st-century education must help students think beyond self-interest and profitability. A real education, he says, teaches students to leave a legacy that extends beyond the bottom line—a transcendent education.[63] A **transcendent education** has five higher goals that balance self-interest with responsibility to others: *empathy* (feeling your decisions as potential victims might feel them, to gain wisdom); *generativity* (learning how to give as well as take, to others in the present as well as to future generations); *mutuality* (viewing success not merely as personal gain, but a common victory); *civil aspiration* [thinking not just in terms of "don'ts" (lie, cheat, steal, kill), but also in terms of positive contributions]; and *intolerance of ineffective humanity* (speaking out against unethical actions.)

transcendent education

An education with five higher goals that balance self-interest with responsibility to others.

Contrasting Views

Two basic and contrasting views describe principles that should guide managerial responsibility. The first holds that managers act as agents for shareholders and, as such, are obligated to maximize the present value of the firm. This tenet of capitalism is widely associated with the early writings of Adam Smith in *The Wealth of Nations*, and more recently with Milton Friedman, the Nobel Prize–winning economist of the University of Chicago. With his now-famous dictum "The social responsibility of business is to increase profits," Friedman contended that organizations may help improve the quality of life as long as such actions are directed at increasing profits.

Some considered Friedman to be "the enemy of business ethics," but his position was ethical: He believed that it was unethical for unelected business leaders to decide what was best for society and unethical for them to spend shareholders' money on projects unconnected to key business interests.[64] Furthermore, the context of Friedman's famous statement includes the qualifier that business should increase its profits while conforming to society's laws and ethical customs.

The second perspective, different from the profit maximization perspective, is that managers should be motivated by principled moral reasoning. Adam Smith wrote about a world different from the one we are in now, driven in the 18th century by the self-interest of small owner-operated farms and craft shops trying to generate a living income for themselves and their families. This self-interest was quite different from that of top executives of modern corporations.[65] It is noteworthy that Adam Smith also wrote *A Theory of Moral Sentiments*, in which he argued that "sympathy," defined as a proper regard for others, is the basis of a civilized society.[66]

Advocates of corporate social responsibility argue that organizations have a wider range of responsibilities that extend beyond the production of goods and services at a profit. As members of society, organizations should actively and responsibly

The Green Movement. David Best, president of Prism Software, unloads a truck full of old computer equipment during an e-cycling event near the Mall of America in Bloomington, Minnesota. Thousands of people lined up for blocks with carloads and truckloads of old consumer appliances needing to be recycled. The event sponsored by the Mall of America and the Materials Processing Corporation (MPC) is designed to help Minnesotans clean house and protect the environment against hazardous waste such as old monitors and televisions.

participate in the community and in the larger environment. From this perspective, many people criticized insurance companies after Hurricanes Katrina and Rita devastated homes and businesses along the Gulf Coast. From a social responsibility perspective, it was wrong for companies to watch out for their bottom line and avoid paying claims where they could make a case that the damage wasn't covered; the insurers should have been more concerned about their devastated customers.

FROM THE PAGES OF **BusinessWeek**

Is the Green Movement a Passing Fancy?

With a struggling economy and lower oil prices, we'll get to see how committed to green technology companies really are. Please tell me that "green" isn't a fad.

I don't know about you, but for the past two years I have been on green overload. Everywhere I turned, read, listened, and watched, the race to say "I am greener than you" has been on for individuals and businesses alike.

But that was then. With a struggling economy and oil prices falling fast. I think we will soon see just how real all those green aspirations are. And I for one sure hope the commitment to the environment and green technology is enduring. Unfortunately, I am not so sure that's the case. I just read the results of a recent corporate responsibility survey conducted by Business for Social Responsibility and Cone LLC and found them troubling.

According to the survey, in the face of the current economic conditions, 31% of respondents see their corporate and social responsibility budgets decreasing; another 26% say it's too early to determine the impact of the economic crisis on their corporate responsibility plans.

SMART BUSINESS FOR EVERYONE

So maybe we need to reset the way we think about environmental responsibility. At Xerox (XRX), my job is to meet the needs of our customers and our shareholders. The thing is, what I do at my job and how I do my part for the environment are not mutually exclusive. "Green" is not a corporate function housed in a separate unit devoted to social responsibility; green solutions and sustainable strategies are smart business—for everyone. The greener we get, the more we can reduce costs and boost efficiency. The more we reduce costs, the more productive a business can become and the better we can weather the maladies of the global business market.

http://www.businessweek.com/technology/content/jan2009/tc20090126_136438.htm

SOURCE: U. Burns, "Is the Green Movement a Passing Fancy?" *BusinessWeek,* January 27, 2009.

Reconciliation

Profit maximization and corporate social responsibility used to be regarded as antagonistic, leading to opposing policies. But the two views can converge.[67] The Coca-Cola Company has set up about 70 charitable projects to provide clean water in 40 countries. These projects are helping some of the 1.2 billion people without access to safe drinking water. The company is constructing structures to "harvest" rainwater in India, building extensions of the municipal water supply in Mali, and delivering water purification systems and storage urns to Kenya. These projects are aimed at burnishing the company's image and targeting complaints that the company is using up too much of the world's water supply to manufacture its beverages. From a practical perspective, Coca-Cola's strategic planners have identified water shortages as a strategic risk; from a values perspective, water is, in the words of executive Neville Isdell, "at the very core of our ethos," so "responsible use of that resource is very important to us."[68]

Should pharmaceutical companies be allowed to advertise directly to the consumer if the medicine can be obtained only with a prescription from a doctor? When patients request a particular product, doctors are more likely to prescribe it—even if the patients haven't reported the corresponding symptoms.

Earlier attention to corporate social responsibility focused on alleged wrongdoing and how to control it. More recently, attention has also been centered on the possible competitive advantage of socially responsible actions. DuPont has been incorporating care for the environment into its business in two ways it hopes will put it ahead of the competition. First, the company has been reducing its pollution. It hopes these efforts will give it an advantage in a future where the government more heavily regulates emissions, requiring competitors to play catch-up. In addition, reducing emissions goes hand in hand with reducing waste and unnecessary use of energy, saving the company money and directly benefiting the bottom line. Second, DuPont has been developing products that are sustainable, meaning they don't use up the earth's resources. Examples include corn-based fabrics and new applications of its Tyvek material to make buildings more energy-efficient. DuPont expects these innovations to give the company profitable access to the growing market for environmentally friendly products.[69]

The real relationship between corporate social performance and corporate financial performance is highly complex; socially responsible organizations are not necessarily more or less successful in financial terms.[70] But on net, the accumulated evidence indicates that social responsibility is associated with better financial performance.[71] Some advantages are clear, however. For example, socially responsible actions can have long-term benefits. Companies can avoid unnecessary and costly regulation if they are socially responsible. Honesty and fairness may pay great dividends to the conscience, to the personal reputation, and to the public image of the company as well as in the market response.[72] In addition, society's problems can offer business opportunities, and profits can be made from systematic and vigorous efforts to solve these problems. Firms can perform a cost-benefit analysis to identify actions that will maximize profits while satisfying the demand for corporate social responsibility from multiple stakeholders.[73] In other words, managers can treat corporate social responsibility as they would treat all investment decisions. This has been the case as firms attempt to reconcile their business practices with their effect on the natural environment.

In this way, organizations can identify social issues as part of environmental scanning and SWOT analysis and then choose issues that make the most strategic sense. This approach to social responsibility requires not only careful choice of the initiatives to pursue but also monitoring of results as the company would do for other initiatives. Microsoft has partnered with the American Association of Community Colleges (AACC), whose institutions educate 45 percent of U.S. undergraduates. Microsoft contributes money, equipment, and volunteers to the colleges in the AACC, helping to develop IT curricula and train faculty. In this way, Microsoft is using its own strengths (its volunteers are serving in their areas of expertise) to address an environmental threat (the shortage of IT workers). These accomplishments are all measurable in terms of the number of training programs that meet Microsoft's standards and the number of new IT workers who have completed the programs. Thus, the company is benefiting the community and enhancing its reputation while expanding the market for its products.[75]

> "The essential test that should guide corporate social responsibility is not whether a cause is worthy but whether it presents an opportunity to create shared value—that is, a meaningful benefit for society that is also valuable to the business."
> Michael E. Porter and Mark R. Kramer[74]

The Natural Environment

LO 5

Most large corporations developed in an era of abundant raw materials, cheap energy, and unconstrained waste disposal.[76] But many of the technologies developed during this era are contributing to the destruction of ecosystems. Industrial-age systems follow a linear flow of extract, produce, sell, use, and discard—what some call a "take-make-waste" approach.[77] But perhaps no time in history has offered greater possibilities for a change in business thinking than the 21st century.

Business used to look at environmental issues as a no-win situation: you either help the environment and hurt your business, or help your business at a cost to the environment. But now a paradigm shift is taking place in corporate environmental management: the deliberate incorporation of environmental values into competitive strategies and into the design and manufacturing of products.[78] Why? In addition to philosophical reasons, companies "go green" to satisfy consumer demand, to react to a competitor's actions, to meet requests from customers or suppliers, to comply with guidelines, and to create competitive advantage. Wal-Mart does this by collaborating with its suppliers, as described in the "Management Close-Up: Taking Action" feature.

General Electric CEO Jeff Immelt used to view environmental rules as a burden and a cost. Now he sees environmentally friendly technologies as one of the global economy's most significant business opportunities. Under a business initiative called Ecomagination, GE is looking for business opportunities from solving environmental problems. Ecomagination solutions already include wind turbines, materials for solar energy cells, and energy-efficient home appliances. Over a five-year period, GE's revenues from renewable-energy products rose from $5 million to $7 *billion*.[80]

A Risk Society

We live in a risk society. That is, the creation and distribution of wealth generate byproducts that can cause injury, loss, or danger to people and the environment. The fundamental sources of risk in modern society are the excessive production of hazards and ecologically unsustainable consumption of natural resources.[81] Risk has proliferated through population explosion, industrial pollution, and environmental degradation.[82]

Management Close-Up

TAKING ACTION

Months after CEO Lee Scott announced that Wal-Mart would become a better steward of the earth's resources, the retailer introduced a packaging "scorecard" for its more than 60,000 suppliers. By inputting data about its product packaging into the scorecard, a supplier can benchmark its environmentally responsible behavior against that of its peers. Wal-Mart provided the scorecard to help suppliers evaluate their own performance—and to encourage them to improve.

The scorecard is part of Wal-Mart's "Sustainability 360" initiative, which includes aggressive goals for reducing merchandise packaging, cutting solid waste by 25 percent, and making stores 25 percent more energy-efficient. More than 2,000 Wal-Mart suppliers gathered at the company-sponsored Live Better Sustainability Summit in 2007, learning from environmental experts and government groups about manufacturing efficiency, renewable energy, and the movement toward organic food and other green products. At the event, Scott introduced a new Wal-Mart reusable shopping bag labeled "Paper or Plastic? Neither." The bag, made of 85 percent recycled materials, holds more than twice as much as the retailer's disposable plastic bags.[79]

- By introducing a packaging scorecard that lets Wal-Mart suppliers evaluate their own behavior and encourages self-improvement, Lee Scott used persuasion rather than a mandate to urge cooperation. How is this approach consistent with ethical behavior and CSR?
- Wal-Mart's critics claim the firm's sustainability program is merely an attempt to "green-wash" a corporate reputation tainted by its big-box image. How does Scott's behavior illustrate that he's serious about the environment?

Industrial pollution risks include air pollution, smog, global warming, ozone depletion, acid rain, toxic waste sites, nuclear hazards, obsolete weapons arsenals, industrial accidents, and hazardous products. More than 30,000 uncontrolled toxic waste sites have been documented in the United States alone, and the number is increasing by perhaps 2,500 per year. The situation is far worse in other parts of the world. The pattern, for toxic waste and many other risks, is one of accumulating risks and inadequate remedies.

The institutions that create environmental and technological risk (corporations and government agencies) are responsible for controlling and managing the risks.[83] For example, Lockheed Martin Corporation had to contain the spread of a chemical used in industrial degreasers when it leaked from a broken sump pump at an old facility in Florida. Even though Lockheed had sold the facility to another company, it had owned the property when the contamination was first discovered, so it was responsible.[84]

Some of the world's worst environmental problems are in China, because of its rapid industrialization and its huge population and size. Among Asia's capital cities, Beijing has the worst air pollution, with six times the degree of air pollution as in London. About one-third of China's rural population—more than 300 million people—drink unhealthy, unclean water. At least the problem is recognized: local authorities are beginning to experience pressure from the central government to clean up or shut down dirty factories.[85]

ecocentric management
Its goal is the creation of sustainable economic development and improvement of quality of life worldwide for all organizational stakeholders.

Ecocentric Management

LO 6

Ecocentric management has as its goal the creation of sustainable economic development and improvement of quality of life worldwide for all organizational stakeholders.[86]

sustainable growth

Economic growth and development that meet present needs without harming the needs of future generations.

Sustainable growth is economic growth and development that meet the organization's present needs without harming the ability of future generations to meet their needs.[87] Sustainability is fully compatible with the natural ecosystems that generate and preserve life.[88]

Some believe that the concept of sustainable growth offers (1) a framework for organizations to use in communicating to all stakeholders, (2) a planning and strategy guide, and (3) a tool for evaluating and improving the ability to compete.[89] The principle can begin at the highest organizational levels and be made explicit in performance appraisals and reward systems.

With two-thirds of the world's population expected to experience water scarcity by 2025 and shortages forecast for 36 U.S. states by 2013, businesses are becoming concerned about this essential natural resource. If you haven't experienced a water shortage, water usage might not seem to be an obvious area of concern, but it can be significant. For example, Levi Strauss & Company has determined that making a pair of jeans requires about 500 gallons of water for growing, dying, and processing cotton.

Brewer SABMiller is a leader in making water conservation a part of its strategy. Using an online computer application, the company submitted the GPS coordinates of factory and farm locations and learned where its operations are located in areas of water scarcity. About 30 SABMiller sites were in vulnerable areas. Executives decided to target one of those areas and develop a process they could apply elsewhere. They selected South Africa, whose breweries produce about one-sixth of the company's beer. Not only is South Africa facing water shortages, but its government has yet to provide access to safe drinking water for 5 million of its people.

To get hard information about its water consumption, the company measured water usage at each stage of its processes, from growing crops to rinsing out used bottles before recycling. The most water was used in growing barley, maize (corn), and hops. Together with the water used in factories, 20 gallons of water are needed to produce each pint of beer. Based on the data, SABMiller's initial efforts are focusing on identifying and using more efficient irrigation technology, preventing waste from runoff and evaporation.[90]

life-cycle analysis (LCA)

A process of analyzing all inputs and outputs, though the entire "cradle-to-grave" life of a product, to determine total environmental impact.

Increasingly, firms are paying attention to the total environmental impact throughout the life cycle of their products.[91] **Life-cycle analysis (LCA)** is a process of analyzing all inputs and outputs, through the entire "cradle-to-grave" life of a product, to determine the total environmental impact of the production and use of a product. LCA quantifies the total use of resources and the releases into the air, water, and land.

LCA considers the extraction of raw materials, product packaging, transportation, and disposal. Consider packaging alone. Goods make the journey from manufacturer to wholesaler to retailer to customer; then they are recycled back to the manufacturer. They may be packaged and repackaged several times, from bulk transport, to large crates, to cardboard boxes, to individual consumer sizes. Repackaging not only creates waste but it also costs time. The design of initial packaging in sizes and formats adaptable to the final customer can minimize the need for repackaging, cut waste, and realize financial benefits.

Profitability need not suffer and may be positively affected by ecocentric philosophies and practices. Some, but not all, research has shown a positive relationship between corporate environmental performance and profitability.[92] Of course, whether the relationship is positive, negative, or neutral depends on the strategies chosen and the effectiveness of implementation.

For those interested in reading more about this subject, Appendix B beginning on page 189 discusses in greater detail the reasons for managing with the environment in mind, some history of the environmental movement, economic issues, and a wide array of "green" examples pertaining to strategy, public affairs, legal issues, operations, marketing, accounting, and finance.

Timberland has paid particular attention to life-cycle analysis, as implied by what is printed on their recycled-material shoe boxes.

Environmental Agendas for the Future

In the past, most companies were oblivious to their negative environmental impact. More recently, many began striving for low impact. Now, some strive for positive impact, eager to sell solutions to the world's problems. IBM has three decades of experience in lowering its environmental impact through efforts such as reducing waste in packaging and measuring carbon emissions. It has begun to use that experience as a strength, a basis for expertise it can sell to other organizations, along with its computing power and other consulting services. Thus, one application might be to help clients measure and forecast the carbon emissions of their entire supply chain. By running calculations on its supercomputers, IBM consultants could help the clients find ways to lower their energy use.[93]

You don't have to be a manufacturer or a utility to jump on the green bandwagon. Web search giant Google is applying a three-pronged strategy aimed at reducing its "carbon footprint," that is, its output of carbon dioxide and other greenhouse gases. At Google, most greenhouse gas emissions are related to electricity consumption by its buildings and computers. So Google is first seeking ways to make buildings and computers more energy-efficient, such as by using high-efficiency lighting and installing power management software in its computers. Second, the company is developing ways to get more of its power from renewable sources, such as the solar power system at its facility in Mountain View, California. Finally, recognizing that its other efforts cannot yet eliminate Google's release of greenhouse gases, the company is purchasing "offsets"—funding projects that reduce greenhouse gas emissions elsewhere.[94]

Packaging isn't the most glamorous of business topics, but it holds great potential for reducing costs and increasing speed while helping the environment. You can always find opportunities to improve results in unexpected places, where others haven't tried.

Webs of companies with a common ecological vision can combine their efforts into high-leverage, impactful action.[95] In Kalundborg, Denmark, such a collaborative alliance exists among an electric power generating plant, an oil refiner, a biotech production plant, a plasterboard factory, cement producers, heating utilities, a sulfuric acid producer, and local agriculture and horticulture. Chemicals, energy (for both heating and cooling), water, and organic materials flow among companies. Resources are conserved, "waste" materials generate revenues, and water, air, and ground pollution all are reduced.

Companies not only have the *ability* to solve environmental problems; they are coming to see and acquire the *motivation* as well, as described in the "Management Close-Up: Assessing Outcomes and Seizing Opportunities" feature. Some companies now believe that solving environmental problems is one of the biggest opportunities in the history of commerce.[96]

Management Close-Up

ASSESSING OUTCOMES AND SEIZING OPPORTUNITIES

Less than a year after introducing its packaging scorecard, Wal-Mart was able to begin using its data to make purchasing decisions. Today, an Ohio dairy supplies Wal-Mart with square milk jugs that pack more efficiently, significantly reducing shipping costs. For its fresh produce, Wal-Mart uses packaging made from a corn-based bioplastic, a renewable resource. Moving to this packaging on only four produce items saved an estimated 800,000 gallons of gas and prevented more than 11 million pounds of greenhouse gases from entering the environment.

Eco-friendly packaging has also been created for yogurt, apple juice, liquid laundry detergent, and other items, greatly reducing greenhouse gas emissions, saving water, and minimizing the use of plastic resin and cardboard. Smaller packaging for many other products has reduced Wal-Mart's logistics costs because the items weigh less. CEO Lee Scott announced that the company also is studying how to reduce the use of plastic in packaging bottled water.

Wal-Mart doesn't disclose financial information on its sustainability initiative, but it says the program is already saving money and resources and predicts the broad array of projects will save billions over time. It also points to the continuing evolution of the scorecard, which has encouraged further learning and innovation from its suppliers.

In 2008 Scott announced that Wal-Mart would require suppliers to comply with strict ethical and environmental standards, including outside audits. Compliance was not an option for companies that sought to do business with Wal-Mart. By 2012, Wal-Mart will require suppliers to source 95 percent of their production from factories that receive the highest audit ratings. For greater openness, the retailer would also begin tracking factories where its products originate.

Scott retired in 2009. During his tenure, Wal-Mart sales nearly tripled. Succeeding Scott is his protégé, Michael T. Duke, who earlier headed Wal-Mart's logistics and international operations. Industry observers expect Duke to advance Scott's policies. With international business comprising nearly a fourth of Wal-Mart's total sales, Duke is also expected to open stores in Russia and China, two high-potential overseas markets.[97]

- When Scott announced Wal-Mart's sustainability initiative, outside research showed that most consumers didn't consider the environment in their buying decisions, and only 16 percent were willing to pay more for a "green" product. By taking the lead on eco-friendly products, how has Wal-Mart's CEO helped change consumer behavior?
- New CEO Michael Duke is known for his "people skills." How will that help him continue the sustainability initiative launched by his predecessor? Would you consider Wal-Mart to have ecocentric management?

KEY TERMS

Business ethics, p. 164
Caux Principles, p. 165
Compliance-based ethics programs, p. 171
Corporate social responsibility (CSR), p. 176
Ecocentric management, p. 181
Economic responsibilities, p. 176
Egoism, p. 165
Ethical climate, p. 168
Ethical issue, p. 164
Ethical leader, p. 170
Ethical responsibilities, p. 176
Ethics, p. 162
Integrity-based ethics programs, p. 172
Kohlberg's model of cognitive moral development, p. 167
Legal responsibilities, p. 176
Life-cycle analysis (LCA), p. 182
Moral philosophy, p. 165
Philanthropic responsibilities, p. 177
Relativism, p. 166
Sarbanes-Oxley Act, p. 167
Sustainable growth, p. 182
Transcendent education, p. 177
Universalism, p. 165
Utilitarianism, p. 166
Virtue ethics, p. 166

SUMMARY OF LEARNING OBJECTIVES

Now that you have studied Chapter 5, you should be able to:

LO 1 Describe how different ethical perspectives guide decision making.

The purpose of ethics is to identify the rules that govern human behavior and the "goods" that are worth seeking. Ethical decisions are guided by the individual's values or principles of conduct such as honesty, fairness, integrity, respect for others, and responsible citizenship. Different ethical systems include universalism, egoism and utilitarianism, relativism, and virtue ethics. These philosophical systems, as practiced by different individuals according to their level of cognitive moral development and other factors, underlie the ethical stances of individuals and organizations.

LO 2 Explain how companies influence their ethics environment.

Different organizations apply different ethical perspectives and standards. Ethical codes sometimes are helpful, although they must be implemented properly. Ethics programs can range from compliance-based to integrity-based. An increasing number of organizations are adopting ethics codes. Such codes address employee conduct, community and environment, shareholders, customers, suppliers and contractors, political activity, and technology.

LO 3 Outline a process for making ethical decisions.

Making ethical decisions requires moral awareness, moral judgment, and moral character. When faced with ethical dilemmas, the veil of ignorance is a useful metaphor. More precisely, you can know various moral standards (universalism, relativism, and so on), use the problem-solving model described in Chapter 3, identify the positive and negative effects of your alternatives on different parties, consider legal requirements and the costs of unethical actions, and then evaluate your ethical duties using criteria specified in the chapter.

LO 4 Summarize the important issues surrounding corporate social responsibility.

Corporate social responsibility is the extension of the corporate role beyond economic pursuits. It includes not only economic but also legal, ethical, and philanthropic responsibilities. Advocates believe managers should consider societal and human needs in their business decisions because corporations are members of society and carry a wide range of responsibilities. Critics of corporate responsibility believe managers' first responsibility is to increase profits for the shareholders who own the corporation. The two perspectives are potentially reconcilable, especially if managers choose to address areas of social responsibility that contribute to the organization's strategy.

LO 5 Discuss reasons for businesses' growing interest in the natural environment.

In the past, most companies viewed the natural environment as a resource to be used for raw materials and profit. But consumer, regulatory, and other pressures arose. Executives often viewed these pressures as burdens, constraints, and costs to be borne. Now, more companies view the interface between business and the natural environment as a potential win-win opportunity. Some are adopting a "greener" agenda for philosophical reasons and personal commitment to sustainable development. Many also are recognizing the potential financial benefits of managing with the environment in mind, and are integrating environmental issues into corporate and business strategy. Some see entering businesses that help rather than harm the natural environment as one of the great commercial opportunities in history.

LO 6 Identify actions managers can take to manage with the environment in mind.

Organizations have contributed risk to society and have some responsibility for reducing risk to the environment. They also have the capability to help solve environmental problems. Ecocentric management attempts to minimize negative environment impact, create sustainable economic development, and improve the quality of life worldwide. Relevant actions are described in the chapter, including strategic initiatives, life-cycle analysis, and interorganizational alliances. A chapter appendix provides a wide variety of specific examples of strategic, operations, finance, legal and public affairs, marketing, and accounting practices that are environmentally friendly.

DISCUSSION QUESTIONS

1. Has Wal-Mart made headlines recently for any new environmental initiatives? How has the company been progressing toward its goals?
2. Consider the various ethical systems described early in the chapter. Identify concrete examples from your own past decisions or the decisions of others you have seen or read about.
3. Choose one or more topics from Table 5.2 and discuss the ethical issues surrounding them.
4. What would you do in each of the scenarios described in Table 5.3?
5. Identify and discuss illegal, unethical, and socially responsible business actions in the current news.
6. Does your school have a code of ethics? If so, what does it say? Is it effective? Why or why not?
7. You have a job you like at which you work 40 to 45 hours per week. How much off-the-job volunteer work would you do? What kinds of volunteer work? How will you react if your boss makes it clear he or she wants you to cut back on the outside activities and devote more hours to your job?
8. What are the arguments for and against the concept of corporate social responsibility? Where do you stand, and why? Give your opinions, specifically, with respect to the text examples.
9. What do you think of the concept of a transcendent education, as described in the chapter? What can be done to implement such a vision for education?
10. What is the current status of the Sarbanes-Oxley Act? Have there been any changes? What do executives think of it now? What impact has it had?
11. A company in England slaughtered 70,000 baby ostrich chicks each year for their meat. It told a teen magazine that it would stop if it received enough complaints. Analyze this policy, practice, and public statement using the concepts discussed in the chapter.
12. A Nike ad in the U.S. magazine *Seventeen* showed a picture of a girl, aged perhaps 8 or 9. The ad read,

    If you let me play . . .
    I will like myself more.
    I will have more self-confidence.
    I will suffer less depression.
    I will be 60 percent less likely to get breast cancer.
    I will be more likely to leave a man who beats me.
    I will be less likely to get pregnant before I want to.

I will learn what it means to be strong.
If you let me play sports.

Assess this ad in terms of chapter concepts surrounding ethics and social responsibility. What questions would you ask in doing this analysis?

13. Should companies like GE and Monsanto be held accountable for actions of decades past, then legal but since made illegal, as their harmful effects became known? Why or why not?
14. Discuss courage as a requirement for ethical behavior. What personal examples can you offer, either as an actor or as an observer? What examples are in the news?

CONCLUDING CASE

J & G Garden Center: Lawn Care Services Division

John and Gloria Weed started a new business in 1986 on the outskirts of Columbus, Ohio. Their original retail store with greenhouse attachment featured fresh-cut flowers, annuals, vegetables, and perennials. The building is on the grounds of Gloria's family farm, enabling the Weeds to grow some of their retail products from scratch. Gloria's parents gave the couple several acres of commercially zoned land as a wedding gift in 1982. The building and greenhouse construction were completed by John with a little help from his brothers. This combination of land acquisition and building construction resulted in very low overhead for the business, which contributed to their start-up success.

An addition to the building completed in 1991 included several new and related product lines such as garden tools, soils and mulch products, gifts, seeds, and related accessories.

Gloria had earned a horticulture degree at the local community college prior to the establishment of the business. In 1997 she was able to fulfill a lifelong dream of starting a landscape design and installation service that became the company's next and newest product line. Gloria set up a small studio and office in the couple's nearby home and was able to acquire some new clients. Her timing was good, as the Columbus area experienced a housing boom during that period. New houses and new developments sprang up in every direction from the city. Their garden center was able to supply the plant materials that each new job required. Soon after, the Weeds expanded their product lines to include a new and wider variety of trees, shrubs, landscape terraces, patios, and walkways as a means to generate new sales and to complement Gloria's new service line.

The original start-up business and each expansion project (building addition, new products, design and installation service) have more than covered their costs, but they have generated only fair to moderate profit margins. The Weeds attribute this mostly to the presence of their competition, which always seems to be growing. As a result, they have been reluctant to raise prices even though some product costs have risen.

One year later, the Weeds completed the final phase of their original long-range business plan with the addition of another new service—Big John, The Lawn & Garden Doctor. This new product line was added because of its very high profit projections.

This new division specializes in the treatment and eradication of lawn and garden pests. Many insects and diseases affect plant life, some of which are fatal. In spite of the fact that the Weeds and other local garden centers offer high-quality plants to consumers, nature has a way of wreaking havoc on lawns, gardens, shrubs, and trees over time.

The start-up of this division required a tremendous amount of time, effort, and expense as a result of the environmental and safety-related hazards of some of the products such as insecticides and fungicides. The Weeds were required to train and license two of their employees as certified applications technicians. A custom-built, high-security storage facility was required and built to house all hazardous materials. The building was secured with a locked, barbed-wire fence, an alarm system, and a hazardous material runoff-proof partition. A special liability insurance policy was purchased as well.

As expected, the new division turned out to be very profitable. Demand was strong and the technicians' work was professional and effective. In fact, at the end of its first full year of existence, Big John, The Lawn & Garden Doctor, turned a profit that almost matched that of all other divisions combined. At the company's monthly staff meeting, it therefore came as quite a surprise to everyone when John announced that he was seriously considering dropping the division entirely.

John Weed is a local native of the area. He has very strong family and community values and has always felt responsible for the welfare and happiness of his friends, neighbors, and especially his customers. From the start, he was nervous and apprehensive that something bad would happen as a result of the pesticide or fungicide applications.

And then it happened. A customer's dog became ill, possibly as a result of eating some grass from a recently treated lawn. Big John's technician had taken every precaution. The area was properly treated, marked, and roped off, and the customer was instructed as to the after-care safety precautions, which included a well-written handout and a signed liability waiver form.

Two months later, a lawsuit was filed against the company, claiming that the water runoff from the property of one of their customers had tainted a neighbor's well. The Weeds were forced to hire an attorney. Following a full and costly investigation, they were found not guilty of the charge.

Although the company was clearly not negligent, John was upset. Gloria feels that John is overreacting. She points out that the company is in full compliance with every regulation and that John has gone out of his way to ensure the safety of all. Gloria also noted that no business can control the behavior or be responsible for its customers or the population in general; incidents beyond their control will naturally and always occur. In addition, the high profitability of the division will allow the Weeds to embark on an aggressive advertising campaign aimed at improving the sales and profits of their other divisions.

John is losing sleep over all of this and is not sure what to do. He is worried about the image and reputation of his family and their business. He feels that the lawn and garden doctor business provides a useful service, but his conscience is bothering him.

QUESTIONS

1. Present an argument in favor of retaining the new division that considers and incorporates the ethical conflicts that Mr. Weed is experiencing.
2. Present an argument in favor of eliminating or changing the new division, and make recommendations to improve overall company profits through means that will be acceptable to Mr. Weed.
3. Aside from compliance with the law, how much additional responsibility does a business owner have to his or her customer base, employees, suppliers, and the community at large? How do you feel about the old saying "buyer beware"?

EXPERIENTIAL EXERCISES

5.1 Measuring Your Ethical Work Behavior

OBJECTIVES

1. To explore a range of ethically perplexing situations.
2. To understand your own ethical attitudes.

INSTRUCTIONS

Make decisions in the situations described in the Ethical Behavior Worksheet. You will not have all the background information on each situation, and, instead, you should make whatever assumptions you feel you would make if you were actually confronted with the decision choices described. Select the decision choice that most closely represents the decision you feel you would make personally. You should choose decision options even though you can envision other creative solutions that were not included in the exercise.

Ethical Behavior Worksheet

Situation 1. You are taking a very difficult chemistry course, which you must pass to maintain your scholarship and to avoid damaging your application for graduate school. Chemistry is not your strong suit, and, because of a just-below-failing average in the course, you will have to receive a grade of 90 or better on the final exam, which is two days away. A janitor, who is aware of your plight, informs you that he found the master for the chemistry final in a trash barrel and has saved it. He will make it available to you for a price, which is high but which you could afford. What would you do?

_____ (a) I would tell the janitor thanks, but no thanks.

_____ (b) I would report the janitor to the proper officials.

_____ (c) I would buy the exam and keep it to myself.

_____ (d) I would not buy the exam myself, but I would let some of my friends, who are also flunking the course, know that it is available.

Situation 2. You have been working on some financial projections manually for two days now. It seems that each time you think you have them completed your boss shows up with a new assumption or another "what if" question. If you only had a copy of a spreadsheet software program for your personal computer, you could plug in the new assumptions and revise the estimates with ease. Then, a colleague offers to let you make a copy of some software that is copyrighted. What would you do?

_____ (a) I would accept my friend's generous offer and make a copy of the software.

_____ (b) I would decline to copy it and plug away manually on the numbers.

_____ (c) I would decide to go buy a copy of the software myself, for $300, and hope I would be reimbursed by the company in a month or two.

_____ (d) I would request another extension on an already overdue project date.

Situation 3. Your small manufacturing company is in serious financial difficulty. A large order of your products is ready to be delivered to a key customer when you discover that the product is simply not right. It will not meet all performance specifications, will cause problems for your customer, and will require rework in the field; however, this, you know, will not become evident until after the customer has received and paid for the order. If you do not ship the order and receive the payment as expected, your business may be forced into bankruptcy. And if you delay the shipment or inform the customer of these problems, you may lose the order and also go bankrupt. What would you do?

_____ (a) I would not ship the order and place my firm in voluntary bankruptcy.

_____ (b) I would inform the customer and declare voluntary bankruptcy.

_____ (c) I would ship the order and inform the customer, after I received payment.

_____ (d) I would ship the order and not inform the customer.

Situation 4. You are the cofounder and president of a new venture, manufacturing products for the recreational market. Five months after launching the business, one of your suppliers informs you it can no longer supply you with a critical raw material because you are not a large-quantity user. Without the raw material, the business cannot continue. What would you do?

_____ (a) I would grossly overstate my requirements to another supplier to make the supplier think I am a much larger potential customer to secure the raw material from that supplier, even though this would mean the supplier will no longer be able to supply another, noncompeting small manufacturer who may thus be forced out of business.

_____ (b) I would steal raw material from another firm (non-competing) where I am aware of a sizable stockpile.

_____ (c) I would pay off the supplier, because I have reason to believe that the supplier could be "persuaded" to meet my needs with a sizable "under the table" pay-off that my company could afford.

_____ (d) I would declare voluntary bankruptcy.

Situation 5. You are on a marketing trip for your new venture for the purpose of calling on the purchasing agent of a major prospective client. Your company is manufacturing an electronic system that you hope the purchasing agent will buy. During the course of your conversation, you notice on the cluttered desk of the purchasing agent several copies of a cost proposal for a system from one of your direct competitors. This purchasing agent has previously reported mislaying several of your own company's proposals and has asked for additional copies. The purchasing agent leaves the room momentarily to get you a cup of coffee, leaving you alone with your competitor's proposals less than an arm's length away. What would you do?

_____ (a) I would do nothing but await the man's return.

_____ (b) I would sneak a quick peek at the proposal, looking for bottom-line numbers.

_____ (c) I would put the copy of the proposal in my briefcase.

_____ (d) I would wait until the man returns and ask his permission to see the copy.

SOURCE: Jeffry A. Timmons, *New Venture Creation,* 3rd ed. pp. 285–86. P. 160–161.

5.2 Ethical Stance

Are the following actions ethical or unethical in your opinion? Why or why not? Consider the actions individually, and discuss them in small groups.

- Calling in sick when you really are not.
- Taking office supplies home for personal use.
- Cheating on a test.
- Turning someone in for cheating on a test or paper.
- Overcharging on your company expense report.
- Trying to flirt your way out of a speeding ticket.
- Splicing cable from your neighbor.
- Surfing the net on company time.
- Cheating on income tax.
- Lying (exaggerating) about yourself to influence someone of the opposite sex.
- Looking at pornographic sites on the Web through the company network.
- Lying about your education on a job application.
- Lying about experience in a job interview.
- Making a copy of a rental DVD before returning it to the store.

SOURCE: Suzanne C. de Janasz, Karen O. Dowd, and Beth Z. Schneider, *Interpersonal Skills in Organizations* (New York: McGraw-Hill/Irwin, 2002), p. 391.

APPENDIX B

APPENDIX B

Managing in Our Natural Environment

BUSINESS AND THE ENVIRONMENT: CONFLICTING VIEWS

Some people believe everyone wins when business tackles environmental issues.[1] Others disagree.

The Win-Win Mentality Business used to look at environmental issues as a no-win situation: You either help the environment and hurt your business, or help your business only at a cost to the environment. Fortunately, things have changed. "When Americans first demanded a cleanup of the environment during the early 1970s, corporations threw a tantrum. Their response ran the psychological gamut from denial to hostility, defiance, obstinacy, and fear. But today, when it comes to green issues, many U.S. companies have turned from rebellious underachievers to active problem solvers."[2] Table B.1 gives just a few examples of things U.S. corporations are doing to help solve environmental problems.

The Earth Summit in Rio in 1992 helped increase awareness of environmental issues. This led to the Kyoto Protocol, an international effort to control global warming that included an unsuccessful meeting in the Hague in November 2000.[3] "There has been an evolution of most groups—whether industry, governments, or nongovernmental organizations—toward a recognition that everyone plays a part in reaching a solution."[4]

Being "green" is potentially a catalyst for innovation, new market opportunities, and wealth creation. Advocates believe that this is truly a win-win situation; actions can be taken that benefit both business and the environment. For example, Procter & Gamble in a span of five years reduced disposable wastes by over 50 percent while increasing sales by 25 percent.[5] Win-win companies will come out ahead of those companies that have an us-versus-them, we-can't-afford-to-protect-the-environment mentality.

Is the easy part over?[6] Companies have found a lot of easy-to-harvest, "low-hanging fruit"—that is, overly costly practices that were made environmentally friendlier and that saved money at the same time. Many big companies have made these easy changes, and reaped benefits from them. Many small companies still have such low-hanging fruit to harvest,[7] and plenty remains to be done.

The Dissenting View The critics of environmentalism in business are vocal. Some economists maintain that not a single empirical analysis supports the "free lunch view" that spending money on environmental problems provides full payback to the firm.[8] Skepticism should continue, they say; the belief that everyone will come out a winner is naive.

What really upsets many businesspeople is the financial cost of complying with environmental regulations.[9] Consider a few examples:

- GM spent $1.3 billion to comply with California requirements that 10 percent of the cars sold there be emission-free. European automakers spent $7 billion to install pollution-control equipment in all new cars during a five-year period.
- At Bayer, 20 percent of manufacturing costs were for the environment. This is approximately the same amount spent for labor.
- The Clean Air Act alone was expected to cost U.S. petroleum refiners $37 billion, more than the book value of the entire industry.
- California's tough laws are a major reason why manufacturers moved to Arkansas or Nevada.

In industries like chemicals and petroleum, environmental regulations were once considered a threat to their very survival.[10]

Balance A more balanced view is that business must weigh the environmental benefits of an action against value destruction. The advice here is: Don't obstruct progress, but pick your environmental initiatives carefully. Compliance and remediation efforts will protect, but not increase, shareholder value.[11] And it is shareholder value, rather than compliance, emissions, or costs, that should be the focus of objective cost-benefit analyses. Such an approach is environmentally sound but also hard-headed in a business sense, and is the one approach that is truly sustainable over the long term.

Johan Piet maintains, "Only win-win companies will survive, but that does not mean that all win-win ideas will be successful."[12] In other words, rigorous analysis is essential. Thus, some companies maintain continuous improvement in environmental performance, but fund only projects that meet financial objectives.

Most people understand that business has the resources and the competence to bring about constructive change, and that this creates great opportunity—if well managed—for both business and the environment.

TABLE B.1
What Companies Are Doing to Enhance the Environment

Toyota established an "ecotechnologies" division both for regulatory compliance and to shape corporate direction, including the development of hybrid electric-combustion automobiles.
Interface Corporation's new Shanghai carpet factory circulates liquid through a standard pumping loop like those used in most industries. But simply by using fatter pipes and short, straight pipes instead of long and crooked pipes, it cut the power requirements by 92 percent.
Xerox used "zero-waste-to-landfill" engineering to develop a new remanufacturable copier. AT&T cut paper costs by 15 percent by setting defaults on copiers and printers to double-sided mode.
Electrolux uses more environmentally friendly water-based and powder paints instead of solvent-based paints, and introduced the first refrigerators and freezers free of chlorofluorocarbons.
Many chemical and pharmaceutical companies, including Novo Nordisk and Empresas La Moderna, are exploring "green chemistry" and seeking biological substitutes for synthetic materials.
Anheuser-Busch saved 21 million pounds of metal a year by reducing its beer-can rims by 1/8 of an inch (without reducing its contents).
Nissan enlisted a group of ecologists, energy experts, and science writers to brainstorm about how an environmentally responsible car company might behave. Among the ideas: to produce automobiles that snap together into electrically powered trains for long trips and then detach for the dispersion to final destinations.

SOURCES: P. M. Senge and G. Carstedt, "Innovating Our Way to the Next Industrial Revolution," *Sloan Management Review,* Winter 2001, pp. 24–38; M. P. Polonsky and P. J. Rosenberger III, "Reevaluating Green Marketing: A Strategic Approach," *Business Horizons,* September–October, 2001, pp. 21–30; C. Garfield, *Second to None: How Our Smartest Companies Put People First* (Burr Ridge, IL; Business One-Irwin, 1992); H. Bradbury and J. A. Clair, "Promoting Sustainable Organizations with Sweden's Natural Step," *Academy of Management Executive,* November 1999, pp. 63–74; A. Loving, L. Hunter Lovins, and P. Hawken, "A Road Map for Natural Capitalism," *Harvard Business Review,* May–June 1999, pp. 145–58; P. Hawken, A. Lovings, and L. Hunter Lovins, *Natural Capitalism* (Boston: Little Brown, 1999); and S. L. Hart and M. B. Milstein, "Global Sustainability and the Creative Destruction of Industries," *Sloan Management Review,* Fall 1999, pp. 23–32.

TABLE B.2
Some U.S Environmental Laws

Superfund [Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)]: Establishes potential liability for any person or organization responsible for creating an environmental health hazard. Individuals may be prosecuted, fined, or taxed to fund cleanup.
Clean Water Act [Federal Water Pollution Control Act]: Regulates all discharges into surface waters, and affects the construction and performance of sewer systems. The Safe Drinking Water Act similarly protects groundwaters.
Clean Air Act: Regulates the emission into the air of any substance that affects air quality, including nitrous oxides, sulfur dioxide, and carbon dioxide.
Community Response and Right-to-Know Act: Mandates that all facilities producing, transporting, storing, using, or releasing hazardous substances provide full information to local and state authorities and maintain emergency-action plans.
Federal Hazardous Substances Act: Regulates hazards to health and safety associated with consumer products. The Consumer Product Safety Commission has the right to recall hazardous products.
Hazardous Materials Transportation Act: Regulates the packaging, marketing, and labeling of shipments of flammable, toxic, and radioactive materials.
Resource Conservation and Recovery Act: Extends to small-quantity generators the laws regulating generation, treatment, and disposal of solid and hazardous wastes.
Surface Mining Control and Reclamation Act: Establishes environmental standards for all surface-mining operations.
Toxic Substances Control Act: Addresses the manufacture, processing, distribution, use, and disposal of dangerous chemical substances and mixtures.

SOURCE: Dennis C. Kinlaw, *Competitive and Green: Sustainable Performance in the Environmental Age* (Amsterdam: Pfeiffer & Co., 1993). Reprinted by permission of the author.

WHY MANAGE WITH THE ENVIRONMENT IN MIND?

Business is turning its full attention to environmental issues for many reasons, including legal compliance, cost effectiveness, competitive advantage, public opinion, and long-term thinking.

Legal Compliance Table B.2 shows just some of the most important U.S. environmental laws. Government regulations and liability for damages provide strong economic incentives to comply with environmental guidelines. Most industries already have made environmental protection regulation and liability an integral part of their business planning.[13] The U.S. Justice Department has handed out tough prison sentences to executives whose companies violate hazardous-waste requirements.

Some businesspeople consider the regulations to be too rigid, inflexible, and unfair. In response to this concern, regulatory reform may become more creative. The Aspen Institute Series on the Environment in the Twenty-First Century is trying to increase the cost-effectiveness of compliance measures through more flexibility in meeting standards and relying on market-based incentives. Such mechanisms, including tradable permits, pollution charges, and deposit refund systems, provide positive financial incentives for good environmental performance.[14]

Cost Effectiveness Environmentally conscious strategies can be cost-effective.[15] In the short run, company after company is realizing cost savings from repackaging, recycling, and other approaches. Union Carbide faced costs of $30 a ton for disposal of solid wastes and $2,000 a ton for disposal of hazardous wastes. By recycling, reclaiming, or selling its waste, it avoided $8.5 million in costs *and* generated $3.5 million in income during a six-month period. Dow Chemical launched a 10-year program to improve its environmental, health, and safety performance worldwide. Dow projected savings of $1.8 billion over the 10-year period.[16]

Environmentally conscious strategies offer long-run cost advantages as well. Companies that are functioning barely within legal limits today may incur big costs—being forced to pay damages or upgrade technologies and practices—when laws change down the road.

A few of the other cost savings include fines, cleanups, and litigation; lower raw materials costs; reduced energy use; less expensive waste handling and disposal; lower insurance rates; and possibly higher interest rates.

Competitive Advantage Corporations gain a competitive advantage by channeling their environmental concerns into entrepreneurial opportunities and by producing higher-quality products that meet consumer demand. Business opportunities abound in pollution protection equipment and processes, waste cleanup, low-water-use plumbing, new lightbulb technology, and marketing of environmentally safe products like biodegradable plastics. With new pools of venture capital, government funding, and specialized investment funds available, environmental technology has become a major sector of the venture-capital industry.[17]

In addition, companies that fail to innovate in this area will be at a competitive *disadvantage*. Environmental protection is not only a universal need; it is also a major export industry. U.S. trade suffered as other countries—notably Germany—took the lead in patenting and exporting anti–air pollution and other environmental technologies. If the United States does not produce innovative, competitive new technologies, it will forsake a growth industry and see most of its domestic spending for environmental protection go to imports.[18]

In short, competitive advantage can be gained by maintaining market share with old customers, and by creating new products for new market opportunities. And if you are an environmental leader, you may set the standards for future regulations—regulations that you are prepared to meet, while your competitors are not.

Public Opinion The majority of the U.S. population believes business must clean up; few people think it is doing its job well. Gallup surveys show that more than 80 percent of U.S. consumers consider environmentalism in making purchases. An international survey of 22 countries found that majorities in 20 countries gave priority to environmental protection even at the risk of slowing economic growth. Consumers seem to have reached the point of routinely expecting companies to come up with environmentally friendly alternatives to current products and practices.[19]

Companies also receive pressure from local communities and from their own employees. Sometimes the pressure is informal and low key, but much pressure is exerted by environmental organizations, aroused citizen groups, societies and associations, international codes of conduct, and environmentally conscious investors.[20]

Another important reason for paying attention to environmental impact is TRI, the Toxic Release Inventory.[21] Starting in 1986, the EPA required all the plants of approximately 10,000 U.S. manufacturers to report annual releases of 317 toxic chemicals into the air, ground, and water. The substances include freon, PCBs, asbestos, and lead compounds. Hundreds of others have been added to the list. The releases are not necessarily illegal, but they provide the public with an annual environmental benchmark. TRI provides a powerful incentive to reduce emissions.

Finally, it is useful to remember that companies recover very slowly in public opinion from the impact of an environmental disaster. Adverse public opinion may affect sales as well as the firm's ability to attract and retain talented people. You can see why companies like P&G consider concern for the environment a consumer need, making it a basic and critical business issue.

Long-Term Thinking Long-term thinking about resources helps business leaders understand the nature of their responsibilities with regard to environmental concerns. For example, you read about sustainable growth in the chapter.[22] Economic arguments and the tragedy of the commons also highlight the need for long-term thinking.

Economic arguments In Chapter 3, we discussed long-term versus short-term decision making. We stated that it is common for managers to succumb to short-term pressure for profits and to avoid spending now when the potential payoff is years down the road. In addition, some economists maintain that it is the responsibility of management to maximize returns for shareholders, implying the preeminence of the short-term profit goal.

But other economists argue that such a strategy caters to immediate profit maximization for stock speculators and neglects serious investors who are with the company for the long haul. Attention to environmental issues enhances the organization's long-term viability because the goal is the long-term creation of wealth for the patient, serious investors in the company[23]—not to mention the future state of our planet and the new generations who will inhabit it.

The tragedy of the commons In a classic article in *Science,* Garrett Hardin described a situation that applies to all business decisions and social concerns regarding scarce resources like clean water, air, and land.[24] Throughout human history, a commons was a tract of land shared by communities of people on which they grazed their animals. A commons has limited **carrying capacity,** or the ability to sustain a population, because it is a finite resource. For individual herders, short-term interest lies in adding as many animals to the commons as they can. But problems develop as more herders add more animals to graze the commons. This leads to tragedy: As each herder acts in his short-term interest, the long-run impact is the destruction of the commons. The solution is to make choices according to long-run rather than short-run consequences.

In many ways, we are witnessing this **tragedy of the commons.** Carrying capacities are shrinking as precious resources, water chief among them, become scarcer. Inevitably, conflict arises—and solutions are urgently needed.

The Environmental Movement The 1990s were labeled the "earth decade" when a "new environmentalism" with new features emerged.[25] For example, proponents of the new environmentalism asked companies to reduce their wastes, use resources prudently, market safe products, and take responsibility for past damages. These requests were formalized in the CERES principles (see Table B.3).

The new environmentalism combined many diverse viewpoints, but initially it did not blend easily with traditional business values. Some of the key aspects of this philosophy are noted in the following discussion of the history of the movement.[26]

Conservation and Environmentalism A strand of environmental philosophy that is not at odds with business management is **conservation.** The conservation movement is anthropocentric (human centered), technologically optimistic, and concerned chiefly with the efficient use of resources. The movement seeks to avoid waste, promote the rational and efficient use of natural resources, and maximize long-term yields, especially of renewable resources.

The **environmental movement,** in contrast, historically has posed dilemmas for business management. Following the lead of early thinkers like George Perkins Marsh (1801–1882), it has shown that the unintended negative effects of human economic activities on the environment often are greater than the benefits. For example, there are links between forest cutting and soil erosion and between the draining of marshes and lakes and the decline of animal life.

Other early environmentalists, such as John Muir (1838–1914) and Aldo Leopold (1886–1948), argued that humans are not above nature but a part of it. Nature is not for humans to subdue but is sacred and should be preserved not simply for economic use but for its own sake—and for what people can learn from it.

TABLE B.3
The CERES Principles

Protection of the biosphere: Minimize the release of pollutants that may cause environmental damage.
Sustainable use of natural resources: Conserve nonrenewable resources through efficient use and careful planning.
Reduction and disposal of waste: Minimize the creation of waste, especially hazardous waste, and dispose of such materials in a safe, responsible manner.
Wise use of energy: Make every effort to use environmentally safe and sustainable energy sources to meet operating requirements.
Risk reduction: Diminish environmental, health, and safety risks to employees.
Marketing of safe products and services: Sell products that minimize adverse environmental impact and are safe for consumers.
Damage compensation: Accept responsibility for any harm the company causes the environment; conduct bioremediation; and compensate affected parties.
Disclosure of environmental incidents: Public dissemination of accidents relating to operations that harm the environment or pose health or safety risks.
Environmental directors: Appoint at least one board member who is qualified to represent environmental interests; create a position of vice president for environmental affairs.
Assessment and annual audit: Produce and publicize each year a self-evaluation of progress toward implementing the principles and meeting all applicable laws and regulations worldwide. Environmental audits will also be produced annually and distributed to the public.

SOURCES: *Chemical Week,* September 20, 1989, copyright permission granted by *Chemical Week* magazine. *CERES Coalition Handbook.*

Science and the Environment Rachel Carson's 1962 best-selling book, *The Silent Spring,* helped ignite the modern environmental movement by alerting the public to the dangers of unrestricted pesticide use.[27] Carson brought together the findings of toxicology, ecology, and epidemiology in a form accessible to the public. Blending scientific, moral, and political arguments, she connected environmental politics and values with scientific knowledge.

Barry Commoner's *Science and Survival* (1963) continued in this vein. Commoner expanded the scope of ecology to include everything in the physical, chemical, biological, social, political, economic, and philosophical worlds.[28] He argued that all of these elements fit together, and have to be understood as a whole. According to Commoner, the symptoms of environmental problems are in the biological world, but their source lies in economic and political organizations.

Economics and the Environment Economists promote growth for many reasons: to restore the balance of payments, to make nations more competitive, to create jobs, to reduce the deficit, to provide for the elderly and the sick, and to reduce poverty. Environmentalists criticize economics for its notions of efficiency and its emphasis on economic growth.[29] For example, environmentalists argue that economists do not adequately consider the unintended side effects of efficiency. Environmentalists hold that economists need to supplement estimates of the economic costs and benefits of growth with estimates of other factors that historically were not measured in economic terms.[30]

Economists and public policy analysts argue that the benefits of eliminating risk to the environment and to people must be balanced against the costs. Reducing risk involves determining how effective the proposed methods of reduction are likely to be and how much they will cost. There are many ways to consider cost factors. Analysts can perform cost-effectiveness analyses, in which they attempt to figure out how to achieve a given goal with limited resources, or they can conduct more formal risk-benefit and cost-benefit analyses, in which they quantify both the benefits and the costs of risk reduction.[31]

Qualitative Judgments in Cost-Benefit Analysis Formal, quantitative approaches to balancing costs and benefits do not eliminate the need for qualitative judgments. For example, how does one assess the value of a magnificent vista obscured by air pollution? What is the loss to society if a particular genetic strain of grass or animal species becomes extinct? How does one assess the lost opportunity costs of spending vast amounts of money on air pollution that could have been spent on productivity enhancement and global competitiveness?

Fairness cannot be ignored when doing cost-benefit analysis.[32] For example, the costs of air pollution reduction may have to be borne disproportionately by the poor in the form of higher gasoline and automobile prices. Intergenerational fairness also plays a role.[33] Future generations have no representatives in the current market and political processes. To what extent should the current generation hold back on its own consumption for the sake of posterity? This question is particularly poignant because few people in the world today are well off. To ask the poor to reduce their life's chances for the sake of a generation yet to come is asking for a great sacrifice.

International Perspectives Environmental problems present a different face in various countries and regions of the world. The United States and Great Britain lag behind Germany and Japan in mandated emissions standards.[34] In Europe, the Dutch, the Germans, and the Danes are among the most environmentally conscious. Italy, Ireland, Spain, Portugal, and Greece are in the early stages of developing environmental policies. Poland, Hungary, the Czech Republic, and former East Germany are the most polluted of the world's industrialized nations.[35]

The environmental movement is a worldwide phenomenon. The "Greens," pictured here demonstrating in LePuy, France, are an important growing European political party.

U.S. companies need to realize that there is a large growth market in western Europe for environmentally "friendly" products. U.S. managers also need to be fully aware of the environmental movement in western Europe. Environmentalists in Europe have been successful in halting many projects.[36] China has been paying a high ecological price for its rapid economic growth. But the government has begun recognizing the problem and is creating some antipollution laws.[37]

Industries that pollute or make polluting products will have to adjust to the new reality, and companies selling products in certain parts of the world must take into account a growing consumer consciousness about environmental protection. Manufacturers may even be legally required to take products and packaging back from customers after use, to recycle or dispose of. In order to meet these requirements in Germany, and be prepared for similar demands in other countries, Hewlett-Packard redesigned its office-machine packaging worldwide.

WHAT MANAGERS CAN DO

To be truly "green"—that is, a cutting-edge company with respect to environmental concerns—legal compliance is not enough. Progressive companies stay abreast *and* ahead of the laws by going beyond marginal compliance and anticipating future requirements and needs.[38] But companies can go further still by experimenting continually with innovations that protect the environment. McDonald's, for example, conducted tests and pilot projects in composting food scraps and in offering refillable coffee mugs and starch-based (biodegradable) cutlery.[39]

Systems Thinking The first thing managers can do to better understand environmental issues in their companies is to engage in systems thinking. Environmental considerations relate to the organization's inputs, processes, and outputs.[40] *Inputs* include raw materials and energy. Environmental pressures are causing prices of some raw materials, such as metals, to rise. This greatly increases the costs of production. Higher energy costs are causing firms to switch to more fuel-efficient sources.

Firms are considering new *processes* or methods of production that will reduce water pollution, air pollution, noise and vibration, and waste. They are incorporating technologies that sample and monitor (control) these by-products of business processes. Some chemical plants have a computerized system that flashes warnings when a maximum allowable pollution level is soon to be reached. Many companies keep only minimal stocks of hazardous materials, making serious accidents less likely.

Outputs have environmental impact, whether the products themselves or the waste or by-products of processes. To reduce the impact of its outputs, Herman Miller recycles or reuses nearly all waste from the manufacturing process. It sells fabric scraps to the auto industry, leather trim to luggage makers, and vinyl to stereo and auto manufacturers. It buys back its old furniture, refurbishes it, and resells it. Its corporatewide goal is to send zero waste to landfills. Environmental manager Paul Murray says, "There is never an acceptable level of waste at Miller. There are always new things we can learn."[41]

Strategic Integration Systems thinking reveals that environmental issues permeate the firm, and therefore should be addressed in a comprehensive, integrative fashion. Perhaps the first step is to create the proper mindset. Does your firm see environmental concerns merely in terms of a business versus environment trade-off, or does it see in it a potential source of competitive advantage and an important part of a strategy for long-term survival and effectiveness? The latter attitude, of course, is more likely to set the stage for the following strategic actions.

These ideas help to strategically integrate environmental considerations into the firm's ongoing activities:[42]

1. *Develop a mission statement and strong values supporting environmental advocacy.* Table B.4 shows Procter & Gamble's environmental quality policy.
2. *Establish a framework for managing environmental initiatives.* Some industries have created voluntary codes of environmental practice, for example, the chemical industry's Responsible Care Initiative. Not all standard practices are adopted by all companies, however.[43] At J&J, Environmental Regulatory Affairs uses external audit teams to conduct environmental audits.[44] The Community Environmental Responsibility Program includes strategy and planning, and the development of products and processes with neutral environmental impact.
3. *Engage in "green" process and product design.* The German furniture maker Wilkhahn uses an integrated strategic approach that minimizes the use of virgin resources and uses recycled materials in an environmentally designed plant.[45]
4. *Establish environmentally focused stakeholder relationships.* Many firms work closely with the EPA and receive technical assistance to help convert to more energy-efficient facilities. And to defray costs as well as develop new ideas, small companies like WHYCO Chromium Company establish environmental management partnerships with firms like IBM and GM.[46]
5. *Provide internal and external education.* Engage employees in environmental actions. Dow's WRAP program has cut millions of pounds of hazardous and solid waste and emissions, and achieved annual cost savings of over $10 million, all through employee suggestions.[47] At the same time, inform the public of your firm's environmental initiatives. For example, ecolabeling can urge consumers to recycle and communicate the environmental friendliness of your product. And BPAmoco redesigned its logo (BP's logo has always been green) as a sun-based emblem, reflecting its strategic vision of a hydrogen/solar-based energy future.[48]

TABLE B.4
Procter & Gamble's Environmental Quality Policy

Procter & Gamble is committed to providing products of superior quality and value that best fill the needs of the world's consumers. As part of this, Procter & Gamble continually strives to improve the environmental quality of its products, packaging, and operations around the world. To carry out this commitment, it is Procter & Gamble's policy to:
Ensure our products, packaging, and operations are safe for our employees, consumers, and the environment.
Reduce or prevent the environmental impact of our products and packaging in their design, manufacture, distribution, use, and disposal whenever possible.
Meet or exceed the requirements of all environmental laws and regulations.
Continually assess our environmental technology and programs, and monitor programs toward environmental goals.
Provide our consumers, customers, employees, communities, public interest groups, and others with relevant and appropriate factual information about the environmental quality of P&G products, packaging, and operations.
Ensure every employee understands and is responsible and accountable for incorporating environmental quality considerations in daily business activities.
Have operating policies, programs, and resources in place to implement our environmental quality policy.

SOURCE: K. Dechant and B. Altman, "Environmental Leadership: From Compliance to Competitive Advantage," *The Academy of Management Executive,* August 1994, p. 10. Reprinted by permission.

Implementation How can companies implement "greening" strategies? One tactic you read about in the chapter is life-cycle analysis.[49] That and other approaches begin with a commitment by top management. Specific actions could include commissioning an environmental audit in which an outside company checks for environmental hazards, drafting (or reviewing) the organization's environmental policy, communicating the policy and making it highly visible throughout the organization, having environmental professionals within the company report directly to the president or CEO, allocating sufficient resources to support the environmental effort, and building bridges between the organization and other companies, governments, environmentalists, and local communities.

Ultimately, it is essential to make employees accountable for any of their actions that have environmental impact.[50] Texaco, Du Pont, and other companies evaluate managers on their ideas for minimizing pollution and for new, environment-friendly products. Kodak ties some managers' compensation to the prevention of chemical spills; the company attributes to this policy a dramatic reduction in accidents.[51]

Companies can employ all areas of the organization to meet the challenges posed by pollution and environmental challenges. A variety of companies have responded creatively to these challenges[52] and may serve as models for other organizations. The following sections describe specific actions companies can take to address environmental issues.

Strategy Actions companies can take in the area of strategy include the following:

1. *Cut back on environmentally unsafe businesses.* Du Pont, the leading producer of CFCs, voluntarily pulled out of this $750 million business.[53]

2. *Carry out R&D on environmentally safe activities.* GM is spending millions to develop hydrogen-powered cars that don't emit carbon dioxide. GE is doing research on earth-friendly hydrogen and lower-emission locomotives and jet engines.[54]
3. *Develop and expand environmental cleanup services.* Building on the expertise gained in cleaning up its own plants, Du Pont formed a safety and environmental resources division to help industrial customers clean up their toxic wastes.[55] Global Research Technologies LLC is trying to use solvents to grab carbon dioxide out of the air to isolate it for disposal.[56]
4. *Compensate for environmentally risky projects.* AES has a long-standing policy of planting trees to offset its power plants' carbon emission.[57]
5. *Make your company accountable to others.* Royal Dutch Shell and Bristol-Myers Squibb are trendsetters in green reporting.[58] Danish health care and enzymes company Novo Nordisk purposely asked for feedback from environmentalists, regulators, and other interested bodies from around Europe. Its reputation has been enhanced, its people have learned a lot, and new market opportunities have been identified.[59]
6. *Make every new product environmentally better than the last.* Intel is developing ultra-energy-efficient chips.[60] IBM aims to use recyclable materials, reduce hazardous materials, reduce emissions, and use natural energy and resources in packaging.[61]
7. *Invest in green businesses.* American Electric Power Co. is investing in renewable energy in Chile, as well as retrofitting Bulgarian schools for greater efficiency.[62]

Public affairs In the area of public affairs, companies can take a variety of actions:

1. *Attempt to gain environmental legitimacy and credibility.* The cosponsors of Earth Day included Apple Computer, Hewlett-Packard, and the Chemical Manufacturers Association. McDonald's has tried to become a corporate environmental "educator." Ethel M. Chocolates, in public tours of its Las Vegas factory, showcases effective handling of its industrial wastes.[63]
2. *Try to avoid losses caused by insensitivity to environmental issues.* As a result of Exxon's apparent lack of concern after the *Valdez* oil spill, 41 percent of Americans polled said they would consider boycotting the company.[64] MacMillan Bloedel lost a big chunk of sales almost overnight when it was targeted publicly as a clear-cutter and chlorine user.[65]
3. *Collaborate with environmentalists.* Executives at Pacific Gas & Electric seek discussions and joint projects with any willing environmental group, and ARCO has prominent environmentalists on its board of directors.

The legal area Actions companies can take in the legal area include the following:

1. *Try to avoid confrontation with state or federal pollution control agencies.* W. R. Grace faced expensive and time-consuming lawsuits as a result of its toxic dumps. Browning-Ferris, Waste Management Inc., and Louisiana-Pacific were charged with pollution control violations, damaging their reputations.
2. *Comply early.* Because compliance costs only increase over time, the first companies to act will have lower costs. This will enable them to increase their market share and profits and win competitive advantage. 3M's goal was to meet government requirements to replace or improve underground storage tanks five years ahead of the legally mandated year.
3. *Take advantage of innovative compliance programs.* The EU started a carbon-cutting and trading system in 2005.[66] Instead of source-by-source reduction, the EPA's bubble policy allows factories to reduce pollution at different sources by different amounts, provided the overall result is equivalent. Therefore, 3M installed equipment on only certain production lines at its tape-manufacturing facility in Pennsylvania, thereby lowering its compliance costs.[67] Today, there is greater use of economic instruments like tradable pollution permits, charges, and taxes to encourage improvements.[68] *Joint implementation* involves companies in industrialized nations working with businesses in developing countries to help them reduce greenhouse gas emissions. The company lending a hand then receives credit toward fulfilling its environmental obligations at home. The developing country receives investment, technology, and jobs; the company giving a lending hand receives environmental credits; and the world gets cleaner air.[69]
4. *Don't deal with fly-by-night subcontractors for waste disposal.* They are more likely to cut corners, break laws, and do a poor job. Moreover, the result for you could be bad publicity and legal problems.[70]

Operations The actions companies can take in the area of operations include the following:

1. *Promote new manufacturing technologies.* Louisville Gas and Electric took the lead in installing smokestack scrubbers, Consolidated Natural Gas pioneered the use of clean-burning technologies, and Nucor developed state-of-the-art steel mills.
2. *Practice reverse logistics.* Firms move packaging and other used goods from the consumer back up the distribution channel to the firm. Make them not just costs, but a source of revenue— inputs to production. Fuji Australia believes that remanufacturing has generated returns in the tens of millions of dollars.[71]
3. *Encourage technological advances that reduce pollution from products and manufacturing processes.* Cinergy and AEP are working on technologies that capture carbon as coal is burned and pump it deep into the ground to be stored for thousands of years.[72] 3M's "Pollution Prevention Pays" program is based on the premise that it is too costly for companies to employ add-on technology; instead, they should attempt to eliminate pollution at the source.[73] Pollution prevention, more than pollution control, is related to both better environmental performance and better manufacturing performance, including cost and speed.[74]
4. *Develop new product formulations.* The Chicago Transit Authority and Union Pacific Corporation are replacing traditional wood railroad ties with plastic ties. Other companies are experimenting with making recycled cross-ties of old tires, grocery bags, milk jugs, and Styrofoam

cups.[75] Weyerhaeuser, recognizing the decreasing supply of timber and growing demand, is working to produce high-quality wood on fewer, continuously regenerated acres.[76] Electrolux has developed a sun-powered lawn mower and a chainsaw that runs on vegetable oil.[77] Many companies are developing green pesticides.

5. *Eliminate manufacturing wastes.* 3M replaced volatile solvents with water-based ones, thereby eliminating the need for costly air pollution control equipment. BPAmoco implemented a similar program.
6. *Find alternative uses for wastes.* When DuPont halted ocean dumping of acid iron salts, it discovered that the salts could be sold to water treatment plants at a profit. A Queensland sugarcane facility powers production via sugarcane waste.[78]
7. *Insist that your suppliers have strong environmental performance.* Chiquita Banana had a spotty environmental record, but now its plantations are certified by the Rainforest Alliance, and Wal-Mart has named Chiquita its most environmentally conscious supplier.[79] Scott Paper discovered that many of its environmental problems were "imported" through the supply chain. Initially focusing on pulp suppliers, the company sent questionnaires asking for figures on air, water, and land releases, energy consumption, and energy sources. Scott was astonished at the variance. For example, carbon dioxide emissions varied by a factor of 17 among different suppliers. Scott dropped the worst performers and announced that the best performers would in the future receive preference in its purchasing decisions.[80]
8. *Assemble products with the environment in mind.* Make them easy to snap apart, sort, and recycle, and avoid glues and screws.

Companies like Toyota use advertising to convey to consumers their efforts to become more environmentally friendly.

Marketing Companies can also take action in the marketing area:

1. *Cast products in an environment-friendly light.* Most Americans believe a company's environmental reputation influences what they buy.[81] Wal-Mart has made efforts to provide customers with recycled or recyclable products. A Chinese entrepreneur is making underwear out of soybean by-products.[82] Spiegel plans to offer soybean-fiber halter-top dresses in pink and mocha.[83] Other eco-friendly fibers are made from hemp and bamboo, which require little pesticide.
2. *Avoid attacks by environmentalists for unsubstantiated or inappropriate claims.* When Hefty marketed "biodegradable" garbage bags, that claim was technically true, but it turned out that landfill conditions didn't allow decomposition to occur.[84] The extensive public backlash affected not only Hefty bags but also other Hefty products. Hefty didn't lie, but it did exaggerate. Its tactics overshadowed well-intentioned greening actions.
3. *Differentiate your product via environmental services.* ICI takes back and disposes of customers' waste as a customer service. Disposal is costly, but the service differentiates the firm's products. Teach customers how to use and dispose of products; for instance, farmers inadvertently abuse pesticides. Make education a part of a firm's after-sales service.
4. *Take advantage of the Net.* The EcoMall (www.ecomall.com/biz/) promotes a number of environmentally oriented firms in 68 product categories. Firms using the Net target green consumers globally, effectively, and efficiently.[85]

Accounting Actions companies can take in the accounting area include the following:

1. *Collect useful data.* The best current reporters of environmental information include Dow Europe, Danish Steel Works, BSO/Origin, 3M, and Monsanto. BSO/Origin has begun to explore a system for corporate environmental accounting.[86]
2. *Make polluters pay.* CIBA-GEIGY has a "polluter pays principle" throughout the firm, so managers have the incentive to combat pollution at the sources they can influence.[87]
3. *Demonstrate that antipollution programs pay off.* 3M's Pollution Prevention Pays program is based on the premise that only if the program pays will there be the motivation to carry it out. Every company needs to be cost-effective in its pollution reduction efforts.
4. *Use an advanced waste accounting system.* Do this in addition to standard management accounting, which can hinder investment in new technologies. Waste accounting makes sure all costs are identified and better decisions can be made.
5. *Adopt full-cost accounting.* This approach, called for by Frank Popoff, Dow's chairman, ensures that the price of a product reflects its full environmental cost.[88]

6. *Show the overall impact of the pollution reduction program.* Companies have an obligation to account for the costs and benefits of their pollution reduction programs. 3M claims half a *billion* dollars in savings from pollution prevention efforts.[89]

Finance In the area of finance, companies can do the following:

1. *Gain the respect of the socially responsible investment community.* Many investment funds in the United States and Europe take environmental criteria into account. A study by ICF Kaiser concluded that environmental improvements could lead to significant reduction in the perceived risk of a firm, with a possible 5 percent increase in the stock price.[90] Socially responsible rating services and investment funds try to help people invest with a "clean conscience."[91]
2. *Recognize true liability.* Investment houses often employ environmental analysts who search for companies' true environmental liability in evaluating their potential performance. Bankers look at environmental risks and environmental market opportunities when evaluating a company's credit rating.[92] The Securities and Exchange Commission in New York requires some companies to report certain environmental costs. The Swiss Bank Corp. has specialized Environmental Performance Rating Units to include environmental criteria in order to improve the quality of financial analysis.[93]
3. *Fund and then assist green companies.* Ann Winblad of Hummer Winblad Venture Partners was one of the first venture capitalists to coach green entrepreneurs to increase their business skills and chances of success.[94]
4. *Recognize financial opportunities.* Worldwide, one of these great opportunities is water. Water must be purified and delivered reliably to everyone worldwide. Billions of people lack sanitary sewage facilities and have poor access to drinking water. Infrastructures in big cities, including those in the United States, are seriously deteriorating. Supplying clean water to people and companies is a $400 billion-a-year industry—one-third larger than the global pharmaceutical industry. Companies are aggressively pursuing this market. They are betting that water in the 21st century will be like oil in the 20th century. A Bear Stearns analyst called water the best sector for the next century.[95]

KEY TERMS

carrying capacity The ability of a finite resource to sustain a population. p. 191

conservation An environmental philosophy that seeks to avoid waste, promote the rational and efficient use of natural resources, and maximize long-term yields, especially of renewable resources. p. 192

environmental movement An environmental philosophy postulating that the unintended negative effects of human economic activities on the environment are often greater than the benefits, and that nature should be preserved. p. 192

tragedy of the commons The environmental destruction that results as individuals and businesses consume finite resources (the "commons") to serve their short-term interests without regard for the long-term consequences. p. 191

DISCUSSION QUESTIONS

1. To what extent can and should we rely on government to solve environmental problems? What are some of government's limitations? Take a stand on the role and usefulness of government regulations on business activities.
2. To what extent should managers today be responsible for cleaning up mistakes from years past that have hurt the environment?
3. How would you characterize the environmental movement in western Europe? How does it differ from the U.S. movement? What difference will this make to a multinational company that wants to produce and market goods in many countries?
4. What business opportunities can you see in meeting environmental challenges? Be specific.
5. You are appointed environmental manager of XYZ Company. Describe some actions you will take to address environmental challenges. Discuss obstacles you are likely to encounter in the company and how you will manage them.
6. Interview a businessperson about environmental regulations and report your findings to the class. How would you characterize his or her attitude? How constructive is his or her attitude?
7. Interview a businessperson about actions he or she has taken that have helped the environment. Report your findings to the class and discuss.
8. Identify and discuss some examples of the tragedy of the commons. How can the tragedies be avoided?
9. Discuss the status of recycling efforts in your community or school, your perspectives on it as a consumer, and what business opportunities could be available.
10. What companies currently come to mind as having the best and worst reputations with respect to the environment? Why do they have these reputations?
11. Choose one product and discuss its environmental impact through its entire life cycle.
12. What are you, your college or university, and your community doing about the environment? What would you recommend doing?