



10

Ethics and Corporate Social Responsibility

Learning Objectives

By the time you have completed this chapter, you should be able to do the following:

- Understand the differences among ethics, morals, and values.
- Understand ethical issues and behavior.
- Learn about the various unethical behaviors that tempt managers and corporations.
- Learn about ethical dilemmas and an approach to coping with them.
- Ponder the extent to which ethics can be taught.
- Understand the nature of corporate social responsibility (CSR) and the role of corporations in being economically, legally, ethically, philanthropically, and environmentally responsible.

Chapter Outline

- 10.1 Ethics, Morals, and Values
- 10.2 Ethical Issues and Behavior
- 10.3 Unethical Behavior
- 10.4 Ethical Dilemmas and How to Approach Them
- 10.5 Can Ethics Be Taught?
- 10.6 Corporate Social Responsibility

Ethics and ethical behavior should be embedded into the way people are brought up and the way business students are trained. But the sad fact is that *unethical* behavior is more the norm in the business world than the exception. The fact that it is widespread in no way condones unethical behavior. This chapter will clarify the distinctions between ethics, morality, and values, what unethical behavior is and isn't, situations that make it difficult to be ethical and how to cope with them, and the degree to which ethics can be taught.

The chapter also discusses corporate social responsibility (CSR), what it is, and the extent to which corporations have a duty to be socially responsible. Finally, the physical environment (air, land, water) is—or should be—an important stakeholder for corporations. What does the responsibility to safeguard the environment mean, and what role should corporations play?

10.1 Ethics, Morals, and Values

The terms ethics, morals and values are often confused or used interchangeably in everyday speech. Before discussing ethics in more detail, it is important to establish definitions of what each means and the differences among them. A traditional definition of **ethics** is the art and discipline of applying principles and frameworks to analyze and resolve complex moral dilemmas (Rossy, 2011).

The Josephson Institute of Ethics, a nonprofit organization based in Los Angeles, defines ethics differently but perhaps more aptly for the business world: “**Ethics** is about how we meet the challenge of doing the right thing when that will cost more than we want to pay.”

This definition gets to the heart of why “doing the right thing” is sometimes so difficult; we are unaware of the associated cost. The Institute breaks down the definition into two parts: (1) the ability to discern right from wrong, good from evil, and propriety from impropriety; and (2) the commitment or will to do what is right, good, and proper (Maxwell, 2003). People and organizations need to develop a standard to follow and then the will to uphold it, an ongoing struggle for both.

A **moral** person knows right from wrong and chooses right; an **immoral** person knows the difference too but chooses wrong, while an **amoral** person either doesn't know the difference or doesn't care. This description includes notions of bad versus good. Both require societal and cultural norms of right and wrong and, because these evolve over time, what is “right” is far from clear.

Values are the tenets most important to people and the ways that govern how they choose to live their life. That statement also applies to organizations (see Section 2.8). Some people have been known to die for preserving a value very important to them (like freedom, or protecting another's life), and at the other end of the scale are people who think nothing of inflicting harm on others if their cause warrants it (like allegiance to a gang and killing rival gang members to defend "turf").

Virtually every company has an ethics code of behavior, which more accurately might be called a moral code. Over 85% of organizations have developed and distributed organizational codes of conduct. The fact that companies have one apparently has little effect on whether or not employees adhere to it; there is no evidence that they significantly affect ethical behavior (Rossy, 2011). An example of a less-than-successful code is that of energy corporation Enron. Enron's Code of Ethics, which included 64 pages of specific details and an inspiring foreword by CEO Kenneth Lay, failed to prevent one of history's worst examples of systemic corporate ethical failure (Rossy, 2011). Enron went bankrupt as a result of corporate officers' unethical accounting practices. By inflating earnings and cash flow, and keeping liabilities off the books, Enron presented a distorted picture of financial health, attracting investors in the process. Among the losses were the 401K retirement accounts of Enron employees. In contrast, CEO Lay sold stock in the months before the scandal broke and profited greatly (Oppel, 2001).

An **unethical act** has immoral intent, done with the full knowledge that it is legally and morally wrong or contravenes the prevailing societal or organizational culture (Rossy, 2011). It usually violates clear corporate codes of ethics as well as laws and regulations. By contrast, an **ethical "mistake"** is a decision or action that is unintentionally unethical and that an individual or group later regrets and wishes they could somehow undo (Rossy, 2011). The following three key factors differentiate unethical actions from ethical mistakes:

- **Intentionality**—was your intention good or bad? Did you know what you were doing was wrong? Did you try to hide or disguise your motives?
- **Remorse**—do you regret what you did because you recognize you were behaving unethically? Or do you regret only being caught and exposed?
- **Accountability**—are you willing to admit your mistakes, accept responsibility for what you've done, and be accountable for any unethical actions? Are you prepared to make amends and do your best to reverse, or at least mitigate, the negative effects of your actions? (Rossy, 2011)

The next four sections focus on ethics in business, amplifying the nature of ethical issues and dilemmas, revealing the unprecedented extent of unethical behavior, offering some guidelines for dealing with ethical dilemmas, and discussing the extent to which ethics can be taught.

Discussion Questions

1. Does obeying the law make a person "moral," and breaking it "immoral"? Discuss the reasons for your answer.
2. Can ethics vary from country to country? If you think so, provide an example of a country in which principles, norms, and standards of conduct are different from the United States, and provide as much detail as you can (even anecdotes).
3. Is a dictator moral, immoral, or amoral? Give reasons for your answer and an example that could validate your answer.

10.2 Ethical Issues and Behavior

The chairman of AOL Time Warner Book Group was having dinner in New York one evening with John Maxwell, a prominent author on leadership issues from a Christian perspective, and suggested he'd be the perfect fellow to write a book on business ethics. "There's no such thing," replied Maxwell. When asked what he meant, he said, "There's only ethics." This conversation spawned the title of the book Maxwell came to write (Maxwell, 2003).

People get into trouble when one set of ethics or values governs their private life and another their working life. For example, a typical sales employee might say, "I'm an honest person, but it's OK to pad my expense report because that's what everyone in the company does." In fact, many people are ethically duplicitous without realizing it. As Maxwell says, "The same person who cheats on his taxes and steals office supplies wants honesty and integrity from the corporation whose stock he buys, the politician he votes for, and the client he deals with in his own business" (Maxwell, 2003).

Ethical issues arise whenever people are tempted to behave unethically or not do the right thing. Maxwell lists the five most common things that give rise to unethical responses:



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Ethical issues arise when people succumb to pressure to achieve results. Executives manipulate stock prices to increase value, students cheat to get higher grades, and workers produce inferior products to increase production rates.

- *Pressure* to achieve results when things aren't going as planned, which is why people often "cook the books," cut corners, or "bend the rules." Students often cheat to get higher grades, executives manipulate information to increase stock price, factory workers produce inferior products to reduce costs or increase throughput rate. Many of us are under pressure—in 2005, the Ethics Resource Center conducted a national survey of U.S. employees and found that 10% of them at all levels reported feeling pressure to compromise ethical standards (Treviño & Nelson).
- The desire for *pleasure* (if it feels good, do it) leads people to live beyond their means, abuse drugs (of all kinds), suffer divorce and broken homes, and so on. Executives that have achieved an elevated compensation level may do whatever they must to preserve their lifestyle. The consequences are never worth the promise of the temptation and are almost always regretted later.
- Abusing the *power* a person has been given. This, too, can act like a drug: "having power is like drinking salt water. The more you drink the thirstier you get" (Maxwell, 2003, p. 80). Powerful executives may develop a sense of entitlement. They believe that they and the institution are one, so they can take what they want when they want it (Abraham Zaleznik, as quoted in Maxwell, 2003). Those who want to keep their power at all costs are also most likely to compromise standard ethical behavior to do so.

- While *pride* itself is not a bad thing—after all, we have all been brought up to take pride in ourselves, our work, our family, and our country—having an exaggerated sense of pride and self-worth (hubris) is destructive. Pride is essentially competitive; one is proud only of being richer, smarter, or better looking than others. If everyone else were as rich, smart, or good looking, there would be nothing about which to be proud. If your goal is to outdo everyone else, then your focus is entirely on yourself and your own interests (Maxwell, 2003). “Pride can blind you to your own faults, to other people’s needs, and to ethical pitfalls that lie in your path” (Maxwell, 2003, p. 86).
- *Priorities*. German poet and novelist Johann Wolfgang von Goethe said, “Things that matter most must never be at the mercy of things that matter least” (Quoted in Maxwell, 2003). Is being liked by others the most important thing to you? Is keeping your job more important than doing the right thing, like, blowing the whistle on some malfeasance? Do you know what your priorities are?

The following breakdown broadens our understanding of ethical issues in the corporate world:

- ***Human-resources issues.*** An obvious example of this type of ethical issue is discrimination, which can lead to rampant unfairness. Sexual and other types of harassment may take the form of an individual in a hierarchy taking advantage of their position to use power to control others lower in the organizational structure. Harassment may also occur between peers and result in a hostile work environment for those who are the objects of the unwanted attention. Conflicts of interest may take many forms such as bribes and kickbacks, inappropriate influence, and the use of privileged information to bestow favor on special friends or interests.
- ***Customer-confidence issues.*** In many business situations a person may be privy to confidential information, which they may not reveal regardless of their position. To breach that confidentiality and divulge such information is a serious ethical violation. Product safety issues, whether the dangers to consumers were intentional or not, also fall into this category. When products are misrepresented, hyped beyond the benefits they provide, or false claims are made, this transgresses truth in advertising ethical boundaries. In professions that handle other peoples’ money, such as stockbrokers, there is an ethical obligation called fiduciary responsibility to base all actions on the best interest of the client. A stockbroker making an investment of a client’s money for which the only motivation is the stockbroker’s commission would be a violation of the broker’s fiduciary responsibility.
- ***Issues arising from the use of corporate resources.*** These issues range from what may seem to be mundane to the extremely serious. Many people do not give a second thought to making personal calls from work, taking a long lunch or break, or taking stationery products from the supply room to use at home. All of these are examples of stealing company resources. Using company letterhead for personal reasons or allowing a personal view to be construed as the company’s are misappropriations of the company’s reputation. Most people would clearly recognize the ethical wrong in falsifying data to make a company’s financial results look better or receive approval for a new drug (Treviño & Nelson).

The root problems in most of these instances are unfairness, lack of respect, and self-interest.

Discussion Questions

1. This section introduced the notion that people behave unethically rather than bear the costs of ethical behavior (an economic reason). Do you think this is prevalent in corporations today? Why or why not?
2. We have all heard of the Golden Rule: “Do unto others as you would they do unto you.” According to John Maxwell, it is the only ethics guide one needs. Do you agree?
3. Assuming you do the “right” thing all or most of the time, how do you know it? Elaborate on your answer as best you can.
4. Ethics exist in law, business, medicine, and other spheres of life, even politics. Other than the settings in each sphere, would you say that the concept of ethics was the same or different in all spheres? Discuss.

10.3 Unethical Behavior

Every day brings new reports of some new ethical violation or the disposition of a case brought against someone or a company for unethical behavior. **Unethical behavior** consists of conduct undertaken to benefit a person or organization while knowingly (or being oblivious to the possibility of) harming others. Behavior is still considered unethical if the act is wrongful, whether or not it results in harm, for example, a deceitful representation even though not acted upon (Christopher D. Stone, J. Thomas McCarthy Trustee Chair in Law, University of Southern California Gould School of Law, personal communication, October 3, 2011).

Many cases involve greed, like the Ponzi scheme run by Bernard Madoff, a former chairman of the board of directors of the National Association of Securities Dealers (NASD). Madoff used money from new investors to pay “profits” to old ones until the situation imploded and the scam was revealed. People who trusted him with their investments lost billions of dollars. Another type of greed-induced unethical behavior is illustrated by the case of Raj Rajaratnam, founder of the Galleon Group, an international hedge fund based in New York. In 2011, Rajaratnam was convicted of securities fraud and conspiracy for insider trading and sentenced to 11 years in prison, the longest-ever term imposed for that type of offense. Unlike Madoff’s Ponzi scheme, which swindled identifiable victims directly of specific amounts of money, insider trading cheats “the system” including all those investors who are not privy to the information on which profitable trades are made. At the heart of the prosecutors’ case was an allegation that Mr. Rajaratnam gained access to confidential



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In the case of Bernie Madoff’s Ponzi scheme, greed overruled all ethics. Madoff received a long-term prison sentence for bilking investors out of billions of dollars.

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information about a \$5 billion investment in Goldman Sachs by Berkshire Hathaway Inc. in 2008 during the financial crisis. Prosecutors described an environment of rampant insider trading on Wall Street of which the defendant was only one prominent offender. In pronouncing his sentence, U.S. District Judge Richard Holwell stated that the billionaire investor's crimes "reflect a virus in our business culture that needs to be eradicated." In addition to the prison term the judge also ordered Mr. Rajaratnam to pay a \$10 million fine and forfeit \$53.8 million (Pulliam & Bray, 2011).

Not all unethical behavior can be attributed to an individual acting out of the prospect of personal gain. Companies may collectively make unethical decisions that result in harm to others. Workers on the Deepwater Horizon oil platform in the Gulf of Mexico were concerned about safety on the rig months before the oil rig exploded but feared retribution and retaliation if they reported problems. In particular, employees reported that drilling took priority over maintenance that could have ensured safety. The explosion killed 11 workers and resulted in the largest accidental oil spill in history. The oil killed large numbers of wildlife, shut down crucial industries such as fisheries and tourism in large areas of the Gulf of Mexico, causing billions of dollars of economic damage and affecting untold numbers of people directly and indirectly (Urbina, 2010).

Entire industries may be tarred with the brush of unethical behavior in the interest of making profits. For decades the tobacco industry fought a cynical campaign to deny and discredit extensive research that demonstrated the very serious health risks of smoking. In the meantime, the tobacco companies were among the largest spenders on all forms of advertising to induce people to become addicted to smoking. As we all know, they finally lost their protracted case, and it has been conclusively shown that executives were aware of the dangers even as they denied it publicly. Tobacco ads are no longer allowed on television, and it is now illegal to smoke in many public places such as restaurants, movie theaters, museums, aircraft, and so forth. Some states such as California have gone further, banning smoking in parks, apartment-complex balconies, and on the beach. There is now no disputing the fact that tobacco kills, yet these same tobacco companies continue to expand their markets for cigarettes around the world and get new generations addicted to smoking. The argument often used to justify their actions is that tobacco is a legal product. Of course, if tobacco was a new product being introduced to the market today, with all the attendant proven health effects, there is no question that it would be immediately rejected by regulatory agencies as unsafe.



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Company consumer contracts' fine print allows a firm to change the terms as they see fit at any time, initiate higher fees, and forbid consumers from filing lawsuits.

What about new drugs and medical products rushed to market without adequate testing or approval? In 2010, DePuy Orthopaedics, a unit of Johnson & Johnson, issued a global recall of its ASR XL Acetabular System and Hip Resurfacing System (hip implants) because of growing problems with the products and for selling them and other products without FDA approval (Kavilanz, 2011). Also in 2010, France's health regulators issued a recall of prefilled silicone breast implants manufactured by Poly Implant Prothese (PIP), a French company, and said to affect 35,000–45,000 women worldwide. The gel used in them was unauthorized, and

the implants have been associated with abnormally high rupture rates (PIP breast implant recall, 2010). In these examples, the companies involved paid for reparations to victims—and PIP was even shut down.

An ethical concern that may not be as obvious as the preceding examples because the harm is harder to identify has to do with the immensely complicated “fine print” that we seem to confront on an increasing basis. Every time we install or update a software package we are required to accept a lengthy user agreement filled with legalese unintelligible to (and ignored by) most people. Hidden among the verbiage often are clauses that have been described as “weasel words in contracts that allow a company to change the terms at any time, or lay the groundwork for sky-high fees, or that forbid a consumer from filing a lawsuit.” Web service providers such as Facebook and Google have attracted firestorms of protest when they have decided to make unilateral changes to their privacy policies that invariably give the companies more freedom to make commercial use of the users’ information or browsing habits and eroding what little is left of the individual’s privacy. As Web entrepreneur David Hirsch commented in an interview on the burgeoning practice, “This fine-print world we’re living in is bad for consumers, bad for business, and bad for the country. You’ve got people not understanding what they’re agreeing to, and they’re getting clobbered” (Lazarus, 2011).

It may be glib to say that executives cheat, lie, fudge, and line their own pockets because they can, or because it’s unfortunately more acceptable nowadays, or because no one will find out. But isn’t this at the heart of ethical behavior—to do the “right” thing, even when no one is looking? Doing otherwise is unethical, and there must be many more unreported instances where people and organizations intentionally get away with such behavior, thus, in their minds, legitimizing it.

Case Study

Corporate Ethics

On January 13, 2012, Carnival Corporation’s Costa Concordia cruise ship ran aground a reef and capsized off the Italian coast after its captain, Francesco Schettino, steered the ship off the approved course. The ship sustained a hole in its hull greater than the length of a football field, causing it to take on water immediately. The chaos that ensued aboard the ship of panic-stricken passengers futilely seeking information and a disorganized evacuation was heavily reported in international news reports. Surviving passengers even reported that the ship’s safety briefing hadn’t been conducted at the time of the disaster and wasn’t scheduled until the next day—three days after the ship sailed. And this is just the beginning of the ethical issues that arose in the days following the crash.

The captain’s ethics were called into question when reports emerged that he had an unauthorized female companion on the ship’s bridge at the time of the crash with whom he’d also shared dinner and wine just minutes before, that he was performing a close “sail-by” to show off to the residents of the Island of Giglio or to “salute” a friend living on the island. Days later, recordings of conversations between the captain and Italian Coast Guard officials revealed that he had abandoned ship and was aboard a lifeboat before most of the ship’s passengers were evacuated. The *Christian Science Monitor* concluded that Schettino had engaged in “a pattern of untruths and attempted coverup” (Marqland, R).

Carnival's corporate ethics were called into question, as well. For example, Schettino later deflected attention from his initial "salute" story with the claim that his corporate managers told him to take the ship close to the shore as a publicity maneuver. Surviving passengers described chaos aboard the ship as language barriers, an unskilled crew, passenger lack of knowledge about evacuation procedures, and malfunctioning lifeboats all contributed to fear and panic. Reports indicate that passengers were initially told that the problem was an electrical failure; in an amateur video shot by a passenger, a crew member is heard telling passengers: "The situation is under control. Go back to your cabins. We ask you that you all return to your cabins. Once the electrical problem is sorted out everything will be back to normal shortly. Everything is under control. We are resolving the problem" (Pisa, N, 2012). An hour passed before the Captain ordered everyone to abandon ship, plunging nearly 4,000 people into complete chaos. During evacuation, crew members appeared to have little control and offered minimal support to panicked passengers—calling into questions corporate safety procedures.

Subsequent to the disaster, the corporation's moral compass was questioned when Carnival authorized call center employees to phone survivors and offer "30% off their next voyage." News accounts and editorials have labeled the offer "insensitive" and "crass," indicating that the decision to offer the discounts was an ill-conceived strategy for promoting company loyalty that might, in fact, further damage the cruise line's reputation (Costa Concordia disaster, 2012).

Finally, the wreck posed a grave threat to the maritime environment and the health and safety of coastal residents amid fears that the ship's 17 fuel tanks might begin to leak into the sea. As National Public Radio queried, "What do you do with a 1,000 foot wreck that's full of fuel and half-submerged on a rocky ledge in the middle of an Italian marine sanctuary? Remove it. Very carefully . . . involving logistical and environmental issues that are just as large [as the ship]" (Neuman, S, 2012).

Question for Critical Thinking and Engagement

Assume the role of a consultant hired by Carnival Corporation. Prepare a briefing on the critical issues that executives, management, and other leaders should address. What recommendations would you make to the corporation relative to public concerns about employee ethics, corporate safety policies, and the impact of this disaster on the environment?

Discussion Questions

1. List as many reasons as you can as to why an organization would be interested in being ethical. Classify the reasons in terms of whether they represent moral or economic motivation.
2. Do you think business executives, particularly CEOs, have a general public image of behaving selfishly and unethically? Do you think that reputation is deserved? Discuss.
3. Imagine you are looking for a job. Is the company's having an ethical culture or behavior important to you? If so, how would you go about determining this?
4. Imagine you are hiring people. Your company is proud of the fact that it makes a profit by being ethical. How would you ensure you are hiring people with a similar ethos?
5. Cite some examples of trust in business from your personal experience or from reading the newspapers. What happens when trust is lost?
6. What other industries not discussed in this section have also succumbed to unethical behavior? Cite examples to justify your choices.

10.4 Ethical Dilemmas and How to Approach Them

Every person will be faced with ethical dilemmas throughout life; it is inevitable. By definition, the “right answer” is elusive. An **ethical dilemma** arises when a person is presented with a choice (ordinarily of action) in which one consideration is the rightness or wrongness of the action (Christopher D. Stone, J. Thomas McCarthy Trustee Chair in Law, University of Southern California, personal communication, October 3, 2011). Some ethicists evaluate the action in itself, whatever the consequences. Consider a situation in which a person is attempting to shoot someone but realizes too late that the gun isn’t loaded; the act is unethical even though the target didn’t die. Others focus their evaluation on the consequences. For example, lying, which is a “bad” act, may have good consequences. Within the workplace, the “right thing to do” is usually complicated by time pressures and conflicting financial and political demands, and often comes with a price tag. While we never seem to have the right answer when we need it, there are five questions we can ask ourselves when faced with an ethical dilemma that might well help us avoid making the wrong decision:

1. *What’s in it for me?* How will I and those I care about benefit, and what will this cost me (in terms of money, time, work, and reputation)? To get at the nature of what motivates your self-interest in a situation, it sometimes helps to ask, “How comfortable would I feel about sharing my real motivations publicly?”



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The German philosopher Immanuel Kant believed that moral decisions should be based upon the one principle he called the “**Categorical Imperative**”—act as if the maxim of your action were to become the general law.

2. *What decision or action would lead to the greatest good for the greatest number?* This presupposes that one knows and understands the legitimate interests and values of others. John Stuart Mill’s classic work on utilitarianism holds that the preferred decision is the one that will return the highest net social benefit to all stakeholders (those people who might be affected by the outcome) (Mill, 1906). Value conflicts can make achieving such a noble outcome difficult; how do we define the “greater good”? Many environmental and air-quality regulations, for example, are motivated by a desire to protect the general public and act in its behalf.
3. *What rules, policies, and social norms (written or unwritten) apply in this situation?* Immanuel Kant, the German philosopher, believed that a moral decision should be based on a single principle, what he called the Categorical Imperative; act as if the maxim of your action were to become general law, binding on everyone. Patricia Werhane, Director of the Institute for Business and Professional Ethics at DePaul University, asks the following germane questions implied by such a rule-based perspective:
 - Does the action set positive or negative precedents?
 - Is the action acceptable to other reasonable persons?
 - Is it applicable to other similar situations?
 - Does it respect, or at least not denigrate, human dignity? (Werhane, 1994)

4. *What are my obligations to others?* To understand this, one has to appreciate the role of reciprocity and trust in society. Reciprocity is a universal norm and exists in all human cultures; it is embodied in the Golden Rule. Implicit in this view is that people have to trust one another. How do you feel when someone you've previously helped rejects your request for help? Will you ever forget when someone you have helped many times doesn't reciprocate?
5. *What will be the long-term impact on me and on important stakeholders?* Enlightened self-interest demands taking a long-term perspective and assumes that one's self-interest is aligned with those of society. In other words, one's true self-interest lies in doing what is also right for others. This approach is most obviously reflected in the behavior of environmentalists and those that make sacrifices for societal causes.

These five questions in fact constitute a framework for identifying ethical dilemmas and help think through any inherent conflicts among the values and obligations they underscore. The following three criteria will help you to choose from and resolve those conflicts:

- *Priority.* Which questions are most relevant to the values that are important to you and your organization in this situation?
- *Balance.* If you must compromise among your values, which is the best tradeoff?
- *Acceptance.* How well will your decision and its underlying rationale likely hold up under public scrutiny? (Rossy, 2011)

In conclusion, remember to ask all five questions before reaching a decision. Always remember the central role of values in determining the implications of the issues raised. Weigh short-term versus long-term consequences. Be persistent and patient; resist the temptation to find a quick but probably wrong solution. Trust your gut, but be willing to seek the counsel of others. And be courageous—it is not unusual for the ethically right answer to be politically unpopular. As a way of thinking through the ethical criteria just presented, consider the following examples of common, everyday situations that many employees face, and answer the related questions.

Everyday Ethics

Sheryl often takes home pens, pencils, printer paper, and other small office supplies for her personal use—even though she doesn't perform any work from home. Is Sheryl's behavior ethical or unethical? Why or why not? Is there any "gray area" to what Sheryl is doing? In other words, under any circumstances, is her behavior ethical? What are the potential consequences of Sheryl's behavior to others? To her organization? How about to herself?

In order to get some new business, Phil overpromised, knowing his company couldn't deliver. He told the prospect that their orders would be delivered within 14 days, when he knew that deliveries have been taking 30–45 days. He also told the client that technology platforms were updated annually. However, due to the recent economic downturn, Phil knew that the platform hadn't been updated in over three years. What are the potential consequences of Phil's distortions? Is Phil's behavior unethical, or is he just doing what it takes to stay competitive in a tough economic climate?

Suzanne works in management for a pet supply retail chain and is upset by some questionable corporate policies about how small animals sold by the store are cared for. For example, she is not permitted to schedule cage cleaning for the hamsters and birds as often as she believes is necessary for their

(continued)

optimal health and well-being. What are her options? Would Suzanne face any risks if she decides to expose her employer's policies?

Cathy gets to work in the morning at the required hour, and spends about 20 minutes having coffee with her friends before heading to her desk. Cathy then spends the first hour of her day checking her personal e-mail, Facebook account, and even online dating sites. By about 10:00, she starts working; but she keeps Facebook and her personal e-mail account open throughout the day. Is Cathy's behavior ethical or unethical? Is there any "gray area" to what Cathy is doing? In other words, is her behavior acceptable? Would the answer be different if she is able to complete her assigned tasks and meet deadlines?

Eric is a supervisor for a transportation company that has several government contracts. This work is obtained through a strict competitive bidding process regulated by the federal government. He recently discovered that a coworker responsible for preparing project bids is having an affair with an insider at the government agency. Is the activity that Eric has observed (or learned of) unethical? Why or why not? If Eric is reasonably sure that the information he's learned is accurate, would it be unethical if he chose to ignore it? Why or why not? What are Eric's options?

Discussion Questions

1. Consider the case of a highly profitable public company that is rewarding its stockholders with capital gains on rising stock prices and dividend payouts. It is also awarding its top management generous compensation packages with guaranteed bonuses. Its rank-and-file employees, however, don't get raises or bonuses or otherwise realize the effects of such impressive corporate performance. In fact, the profit is achieved by keeping labor and other costs down. Is this an ethical issue? Do such companies perceive it as an ethical issue? Why or why not?
2. The role of unions has been to give a voice to employees as stakeholders. Have they balanced the ethical issue? Do you see the rise in power of unions as a bad thing because they constrain what management can do and increase labor costs? Discuss.
3. If a corporation did not have an ethics officer, to whom would someone report a breach of organizational ethics? What if the alleged perpetrator were that person's manager?
4. When are ethics and ethics standards especially important in companies?
5. Companies often require that their employees work long hours or travel extensively. If you worked for such a company but had young children or elderly relatives to care for, you might find that your career would be jeopardized if you declined these additional work pressures. Is it unethical for a manager or a company to expect so much of employees despite their needs as parents, caregivers, or other life outside work? Discuss.
6. Is employing illegal migrant workers ethical? Why or why not? What is the nature of the dilemma?
7. Why do companies do business with other companies in China or Indonesia given unsettling reports one hears concerning labor practices? Is saving a few extra dollars the most important thing? Do companies realize that by doing so, they are helping perpetuate such practices?
8. Companies don't give a second thought to outsourcing jobs to lower-cost countries. Does the end (making profits) always justify the means? What does it say about the companies' attitude to its workers?

10.5 Can Ethics Be Taught?

Today, every business school includes courses in ethics or requires ethics to be a part of every course in its curriculum. Judging by the results, however, the regular reports of unethical practices in business suggest the requirement hasn't made much difference. An informal poll of students in a business program a few years ago posed two questions: "Would you cheat if you knew for certain you would not be found out?" and "Would you cheat if everyone else was cheating?" Sadly, over 85% of the students answered "Yes" to each question. This experience seems to be shared by many instructors in business education. Undergraduate business students and those aiming for a business career have been found more likely to engage in academic cheating on tests or plagiarism than students in other majors or pursuing other careers (McCabe & Treviño, 1995). Business-school students may need more ethics training than most because research has shown they rank lower in moral reasoning than students in philosophy, political science, law, medicine, and dentistry (McCabe & Treviño, 1993). Lester Thurow, former Dean of the Sloan School of Management at MIT, has stated that business schools can do little if students haven't already learned ethics from their families, clergy, previous schools, or employers (Treviño & Nelson, 2007).



AP Images/Matt Houston

Ethics classes may teach ethics, but by the time students get to college, most have learned their personal values from their family environment.

In the mid-'90s, Joseph Badaracco, an ethics professor at Harvard Business School did some research on MBA graduates that had taken an ethics course at Harvard and faced ethical dilemmas in the business world. Half of them worked for companies that had official ethics programs. He wrote: "Corporate ethics programs, codes of conduct, mission statements, hot lines, and the like provided little help . . . the young managers resolved the dilemmas they faced largely on the basis of personal reflection and individual values, not through reliance on corporate credos, company loyalty, the exhortations of senior executives, philosophical principles, or religious reflection" (Badaracco &

Webb, 1995, p. 9). These managers had learned their personal values from their family upbringing, not from ethics courses.

To find out how students felt about the business world, another professor asked his students a series of questions, one of which was whether they would dump known carcinogens in a river. Shockingly, they replied that they would, because if they didn't, someone else would. He asked them if they wanted to live in such a cynical environment, and they replied that they already did. The dismayed professor concluded that his students' attitudes were formed long before they landed in his classroom. He concurred with other observers that our society with its emphasis on money and material success is rearing children that strive for achievement at any cost (Treviño & Nelson, 2007).

People, it turns out, are taught values early in life. If they do have a set of values that includes honesty, fairness, and selflessness, being around others that dismiss their values out of self-interest will quickly erode them. Parents will attest to changes that take place when their teenage children begin paying more attention to their peer group than to them. It becomes really challenging when people learn that in order to “win” (whether it’s passing a test or climbing the career ladder), they have to sacrifice their values and ethics.

Boys and girls that participate in sports in middle school, high school, and college are fortunate because, besides acquiring skills and stamina, they are taught the ethics of good sportsmanship and other character-building traits, such as teamwork, discipline, and sacrificing individualism for the team. Unfortunately, there are coaches—and parents—that preach winning at any cost. In some sports such as track & field and cycling, we have almost reached a point where there is a presumption of guilt against those who are successful. When athletes in any sport are caught cheating, the common refrain is that “everyone else is doing it so I had to as well just to compete.”

To conclude, the values and ethics ingrained in us from a very early age by our parents and family are the most reliable indicator of how we will fare when ethically tested later in our careers, no matter what those careers are. However, even people with good values and ethics can, when thrust into morally and ethically wanting corporations, behave unethically. When told by your manager to fudge some data or do something else that’s wrong, do you comply in order to remain in their good graces and stay on that fast track up the corporate ladder, or do you stand your ground and risk not only your prospects but also your job? And when you are a few years from retirement, do you succumb to such demands or lose everything, knowing that getting another job at your age is highly unlikely? It is the unusual corporation that develops an ethical system and culture to make sure that employees behave ethically and *want* to behave ethically. One way that organizations can teach, encourage, and promote ethical behavior is by creating and modeling social responsibility and good citizenship through policies. Corporate social responsibility policies will be covered in the next section.

10.6 Corporate Social Responsibility

Perceptions of corporate social responsibility vary widely. As University of Chicago economist Milton Friedman wrote almost 50 years ago: “Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible” (Friedman, 1962). Many people still believe, like Milton Friedman, that a corporation’s sole responsibility to society is to make a profit so it can continue to provide jobs for people and thereby sustain communities and standards of living. To many others, **corporate social responsibility (CSR)** is so much more. For example, The Gap Inc. has a comprehensive social responsibility commitment that encompasses a youth development program, an environmental protection plan that addresses supply chain and in-store issues, and community investment that confronts social challenges (Gap, n.d.).

CSR is the idea that business has a duty to serve society as well as the financial interest of stockholders (Pierce & Robinson, 2005). CSR was conceptualized by Archie B. Carroll of the University



George Rose/Getty Images

Economist Milton Friedman considers a corporation's sole responsibility to society to be to make a profit and continue to create wealth and jobs.

of Georgia as a pyramid that represents various kinds of social responsibility (Figure 10.1). Economic responsibilities, at the base of the pyramid, are met by all well-managed corporations; the ones that aren't well managed fail or are acquired. The **economic responsibility** is to make as much profit as possible in order to create wealth and jobs. Then follow in order of importance legal, ethical, and philanthropic responsibilities. The pyramid is useful because it not only provides a structure for discussion but also demonstrates the complexities of the topic—different people perceive CSR to mean different things.

Legal Responsibilities

Companies are duty bound to honor the law and not break it in whichever country they do business. This is called their **legal responsibilities**. As was discussed earlier, many regulations and laws are enacted to protect the public and the public good, and there are a plethora of government agencies responsible for enforcing them, including the following:

- The Securities and Exchange Commission for ensuring the proper functioning of the securities industry (online and stock exchanges) and the integrity of financial reporting for public companies
- Occupational Safety Health Administration for ensuring safety in the workplace
- The Environmental Protection Agency for protecting the environment
- The US CPSC, while not a government agency, still has the authority to ensure the safety of consumer products sold in the United States
- The Internal Revenue Service for collecting taxes owed the federal government
- The National Labor Relations Board for minimizing unfair labor practices and ideally preventing them from happening

Figure 10.1: Corporate social responsibility pyramid



Source: From A. B. Carroll, "The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders." *Business Horizons*, Vol. 34 No. 4, 1991, pp. 39–48. Copyright © Elsevier. Used with permission.

These agencies came into being to enforce appropriate regulations and laws to prevent corporations from inflicting harm on particular constituencies—investors, workers, consumers, the environment, and so on. Corporations know about these laws and the consequences for breaking them; it is their obligation to the shareholders and employees to be aware of the laws. Despite this, they may commit both errors of commission (they know about the laws but still try to circumvent them) and omission (they are not aware of particular laws or their consequences or don't agree with them). But are these laws effective? Do they succeed in changing the corporate behavior that is at the root of much malfeasance?

As far back as 1975, Christopher Stone (1975) of the University of Southern California Law School explored this very topic. He found maximization of profits to be the dominant characteristic of corporations and that, by and large, corrective actions by the law in terms of fines and penalties for wrongdoing had little effect on changing behavior. They were perceived as a “cost of doing business” so long as they were a relatively small percentage of profits, so firms simply paid them and then went about business as usual. In 2011 United States District Court Judge Jed Rakoff took a strong stand from the bench regarding the culpability of financial institutions in the mortgage crisis that contributed to the recent recession. He refused to approve a boilerplate agreement between Citigroup and the Securities and Exchange Commission to settle a civil fraud case in which Citi was accused of having loaded a \$1 billion mortgage fund with securities that it believed would fail. Citi sold the fund to investors and then it bet against its customers and reaped enormous profits when values declined. The settlement Rakoff rejected called for Citigroup to pay \$285 million, which the judge described as “neither fair, nor reasonable, nor adequate, nor in the public interest.” He characterized \$285 million figure as “pocket change to any entity as large as Citigroup,” and stated that large financial institutions regard such penalties “as a cost of doing business.” In reaching this opinion, Judge Rakoff noted that Citigroup had settled similar cases with the SEC in the past and promised not to repeat the same behavior. The judge, in rejecting the agreement referred to Citi as “a repeat offender” (Wyatt, 2011).

To make penalties so severe as to jeopardize a company's ability to continue to produce goods and possibly force it out of business would be counterproductive and perhaps viewed as overregulation. Stone made persuasive arguments in his book that the law, as part of the punishment for specific kinds of wrongdoing, should insert into the corporation a probation officer or trustee, answerable to the court, to make sure that procedures are changed and that the problem would not recur. The types of offenses for which he envisions this type of remedy include the kind where the source of the problem could be ascertained, like the poor design of a car, quality of materials purchased not checked, cooking foods to the wrong temperature, lack of quality inspections, and the like.

It seems that laws and regulations play a necessary but far from sufficient role in trying to get corporations to behave more responsibly; so long as corporations can absorb the costs incurred when they are indicted, in all likelihood they will continue to do whatever they want in pursuit of profit. The best solution, as Stone surmises, is for corporations to want to behave ethically. While a good number do, that number is not nearly large enough.

Ethical Responsibilities

Notwithstanding the ethics of individuals within a company, companies themselves are often reluctant to become ethically responsible on their own. They are typically pushed to do so by critics or stockholders. Campaign GM, formed by Ralph Nader and others, bought stock in General Motors and proceeded to wage a proxy fight to force GM to adopt stricter testing and environmental standards and to put women and representatives from minority groups on its board of directors.

Corporations have found themselves trying to satisfy their critics while at the same time hoping the critics would go away. How could corporations become socially responsible if their management couldn't, even in principle, determine what their social obligations were (Wyatt, 2011)?

Corporations and researchers developed a new idea—instead of being socially responsible, why not be socially responsive? As long as a company was “responsive” to the demands of society and tried to anticipate and meet these demands, it didn't have to worry about being “responsible.” In other words, it would have no obligation to be moral or ethical. Corporate social responsiveness is primarily pragmatic and perverts the connection between ethics and strategy. It is simple, easy, and wrongheaded (Freeman & Gilbert, 1988). It conveniently sidesteps the true notion of responsibility.



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Corporations dislike becoming ethically responsible of their own volition. Ralph Nader and others formed Campaign GM to buy GM stock and wage a proxy fight against GM, urging them to adopt stricter testing and environmental standards.

Ethical responsibilities encompass the more general responsibility to do what's right and avoid doing undue harm to others. Unless a company's culture and public declarations put a priority on behaving ethically, individual managers will have a hard time being true to their values—swimming against the tide, so to speak. It is much easier to “go along” if it's okay with everyone else. In the rare instance when it's not okay, that individual will tender his or her resignation and join a company whose values are aligned with the individual's own.

Philanthropic Responsibilities

Philanthropic responsibilities are voluntary and engage the corporation's participation in activities that promote human welfare and goodwill. These take the form of donations of time or money to any of a number of deserving causes, charities, and civic-related projects. However, because such activities are voluntary and discretionary, failure to be philanthropic is not considered unethical, and some don't consider it even a responsibility (Treviño & Nelson, 2007).

It was Milton Friedman who said, in not so many words, that giving corporate profits to charity or using them in a way that doesn't benefit stockholders was tantamount to stealing from stockholders (Freeman & Gilbert, 1988). Wouldn't it make more sense to return excess profits to the stockholders and let them decide to donate the money to causes near and dear to their hearts? What right does the corporation (and its board of directors) have to give its money away?

Fortunately, many companies feel it is their duty to “give back” to society and to contribute where the need is greatest. When the tsunami of 2004 hit Southeast Asia, companies like FedEx, Abbott Laboratories, and Coca-Cola jumped in to help. Over 100 companies are estimated to have sent

\$178 million worth of cash and medicine to affected countries, many doing so quietly, not announcing or advertising their contributions (Chandler, 2005). Many corporations also responded swiftly in September 2005 to help victims of hurricane Katrina after it rampaged through Louisiana, Mississippi, and Alabama. Walmart donated over \$20 million to aid victims and donated 1,500 truckloads of free merchandise, food for 100,000 meals, and the promise of jobs for all displaced workers (Barbaro & Gillis, 2005). The recent earthquake, tsunami, and resultant nuclear accident that hit northern Japan on March 11, 2011, cost an estimated 22,000 lives and an estimated \$300 billion, not counting the tens of thousands that were still homeless months later. The nuclear contamination is expected to persist for decades. The flood of donations and assistance from countries, nongovernmental entities, corporations, and individuals has come from every region of the world. Businesses have provided donations of cash, materials, and services to help the victims. Many, such as Sony and Mitsubishi from Japan, Disney and Goldman Sachs from the United States, and Pak Suzuki Motors from Pakistan have contributed matching funds to supplement employee donations (Philanthropy News Digest, 2011). Again, these are examples of the best of human nature, coming to the aid of those less fortunate and in dire need.

In the United States, there is a tradition of philanthropy on the part of wealthy individuals and businesses. In support of this, the federal tax code includes tax incentives to do so. Many of the wealthiest individuals and families in the United States are prolific givers. Bill Gates tops the list, having given generously to The Bill and Melinda Gates Foundation over the years to help bridge the gap in human health that exists between the developed and developing world (Treviño & Nelson, 2007). Warren Buffet, arguably the most successful investor in recent history, has, in addition to donating in excess of \$9.5 billion to the Gates Foundation alone, committed to donating the bulk of his fortune to charity on his death. Further, he has persuaded more than 40 other billionaires to pledge the majority of their fortunes to charity during or after their lifetimes. The commitments by these benefactors are expressed in personal letters from each at Giving Pledge.com, describing the role philanthropy has played in their lives.



Eric Piermont/AFP/Getty Images

In U.S. culture, wealthy individuals and businesses are expected to share their good fortune. Many of the wealthiest billionaires in the United States are prolific philanthropists. Bill and Melinda Gates top the list, having given \$24 billion to their Bill and Melinda Gates Foundation to help bridge the gap in human health between the developed and developing world.

Other forms of philanthropy support the arts (such as symphony orchestras, opera companies, and museums), city beautification projects (such as commissioning a work of art or a garden), scholarships for students, research facilities at universities, hospitals, libraries, and so on. Many high-profile contemporary organizations have significant corporate social responsibility programs. For example, retailer Target contributes 5% of its income to programs benefitting local communities with a Target presence (Target.com, 2008). Philanthropy goes beyond “doing the right thing,” because it is something no one has a right to expect but something for which everyone is thankful.

Many of America's cities owe their greatest cultural features—museums, artwork, buildings, auditoriums, schools, and community facilities to the philanthropic efforts of corporate families such as the Carnegies, Rockefellers, Vanderbilts, and many more. Just walk around any university campus, and the names of some of those who have donated to fund education will be evident in the names of the buildings.

Environmental Responsibilities

Externalities are costs to society, such as air and water pollution, that are produced by companies but not reflected in the company's cost structure (Kuttner, 1997). Historically, it was cheaper for such companies to pollute than not to; profits won out over the harm being done to society. The only way to protect society was through regulation. Thus, despite the aversion that companies have for regulations, not all are bad; some force an ethical standard on companies that otherwise would be ignored.

Because **environmental responsibilities** was not included in the pyramid shown in Figure 10.1, one shouldn't assume that they are "less important" or of a "lower order" of responsibility than philanthropic responsibilities. On the contrary, they are a vital part of corporate social responsibility and becoming more so with each passing year.

What we are talking about here is a company accepting responsibility for and reducing the adverse environmental effects stemming from its operations. Not only are expectations rising for corporations to become more environmentally responsible but technologies are advancing even faster to make some actions possible that only a few years ago were not. Take genetically engineered crops and genetically modified foods—are they safe, and what will be the effect on farmers in regions where GM crops are planted (Schwartz & Gibb, 1999)? Or consider the case of Pacific Gas and Electric's contamination of the water supply in a small California town popularized in the film *Erin Brockovich*. It turns out that 20 years later, water samples indicate that PG&E has not solved the problem.



AP Images/Tokyo Electric Power Co.

For consumers, the benefits of using nuclear power rather than fossil fuels are overshadowed by the risk of nuclear accidents, such as the one that occurred at the Fukushima nuclear facility in Japan in March of 2011.

Despite this bad news, a growing number of companies are becoming more environmentally responsible—leading one scholar to label the phenomenon business's new "megatrend" (Reid, 2010). For instance, the Coca-Cola Corporation has partnered with communities to restore watersheds (Coca-Cola Company, n.d.). Apple seeks to lead the industry in "reducing or eliminating environmentally harmful substances" from its packaging and the metal and plastic in its parts (Apple and the environment, n.d.); and hotelier Marriott is focused on "integrating greater environmental sustainability . . . through architecture and construction, engineering and procurement (Marriott, n.d.).

While companies are motivated by current pressures and existing laws to “clean up after themselves” in the short term, they resist making investments in causes such as research toward long-term solutions to the adverse environmental impacts of their operations. Generally, the immediate pressures to produce profits prevail. Michael Porter has said that pollution is in itself a form of inefficiency in production, creating negative externalities that until now companies have been able to shift on to the public sector (Schwartz & Gibb, 1999). Will there come a time when the accounting profession begins to include costs for safeguarding the environment as a legitimate cost of doing business? Probably not until everyone in an industry is forced to do the same thing. Of course, in some industries, such costs are much higher than in others (for example, preventing oil spills, nuclear accidents, and tainted food).

Another problem is the growing skepticism the consumers have for technological advances being risk-free. A case in point is nuclear power, where the potential benefits of using fossil fuels are balanced by the real risks of a nuclear accident such as the one experienced in Japan in March 2011. In a cost/benefit analysis of nuclear power, how do you account for the possibility of a major nuclear accident or the risk in storing irradiated spent fuel for hundreds of years?

But whom do we blame for overly high levels of mercury in seafood? For the dumping of plastic and other indecomposable garbage now swirling in the Pacific Ocean in two pools, each the size of Texas? For rapidly depleting the world’s supply of fossil fuel? For adding to our global carbon footprint? For changing global climate patterns?

Taking care of negative externalities caused by a particular firm’s operations is one thing, but there is growing evidence of massive environmental damage that is *collectively* caused, making it difficult to pin blame and rendering the law helpless. While I don’t have any solutions (nor is this the appropriate forum for delving into the full extent of the problems), becoming aware of the problems is a first step, followed closely by nations getting together to try to mitigate them. How bad do they have to get before we are all *forced* to cooperate and take responsibility for solving them?

Discussion Questions

1. In your opinion, what is the most pressing environmental problem: (a) that particular corporations are responsible for, and (b) that the global community is responsible for. Explain your choices.
2. Why is the law so far behind developments and policymakers even further behind? (Stone’s book, for example, is a call for policymakers to act.) Is it because not enough facts are available, or there is too much ambiguity, or the costs of following through too high? Discuss.
3. If companies were suddenly expected to bear the costs of their negative externalities, whether or not you agree that is just, how do you think it will affect their stock prices, their prospects for the future, their investors, and their other stakeholders?
4. Following on from (3), do you believe it will spur innovation and investment in innovation?
5. What particular advantages accrue to companies who proactively take steps to safeguard the environment (like BMW), besides giving them a warm, fuzzy feeling?
6. Just from your perception over the past few years of reading the papers and listening to the news, what has accelerated interest in environmental responsibilities of corporations? Has it been the growth of environmental “watchdogs,” investor activism, or consumer pressure? Discuss your thinking.

Summary

Ethics is about how we meet the challenge of doing the right thing when it will cost more than we want to pay, which is a better definition for the business world than the traditional definition of “the art and discipline of applying principles and frameworks to analyze and resolve complex moral dilemmas.” Morality is knowing the difference between right and wrong and choosing right. Someone who is immoral also knows the difference but chooses wrong. Values are tenets that are important to an individual or group and the ways that govern how they choose to live their life. An *unethical act* has immoral intent and is done with the full knowledge that it is legally and morally wrong or contravenes the prevailing societal or organizational culture. Unethical behavior consists of conduct undertaken to benefit a person or organization while knowingly—or being oblivious to the possibility of—harming others. Behavior is still considered unethical if the act is wrongful, whether or not it results in harm.

Why do people behave unethically? In most instances, they are motivated by self-interest. Often they justify such behavior by claiming that other people are getting away with it. Fudging data to make quarterly results look good or to qualify for a bonus, cutting corners to meet production targets, and obeying an order by your manager to cover something up are a few examples of unethical behaviors. Organizations, particularly large ones, are so focused on meeting profit goals, buoying their stock price, and pleasing their stockholders that they may sometimes go to great lengths to avoid or minimize unnecessary expenditures. This includes a proclivity for externalizing whatever costs they can such as pollution. In some industries it is common for firms to tolerate fines and penalties for breaking the law or to settle a lawsuit so long as they constitute a fraction of profits, but continuing to do “business as usual.” To some, this is simply a cost of doing business.

Ethical issues arise whenever people are tempted to behave unethically or not do the “right” thing. In the business world they include a host of issues. In the sphere of human resources, they include such matters as discrimination, sexual and other forms of harassment, and conflicts of interest. Customer-confidence issues encompass confidentiality, product safety, truth in advertising, and fiduciary responsibilities. The use, or misuse, of corporate resources includes such behaviors as co-opting corporate reputation, stealing corporate resources, and falsifying data. The root problems in most of these instances are unfairness, lack of respect, and self-interest.

All of us face ethical dilemmas—a choice in which one consideration is the rightness or wrongness of the action—at some point in our careers. You will recognize you are facing one when you’re not sure what the right thing to do is. However, asking yourself five questions might help you avoid making the wrong decision: (1) What’s in it for me? (2) What decision or action would lead to the greatest good for the greatest number? (3) What rules, policies, and social norms apply in this situation? (4) What are my obligations to others? (5) What will be the long-term impact on me and on important stakeholders? Three additional questions will help resolve conflicts you may experience: Which questions are most relevant to the values that are important to you and your organization in this situation? If you must compromise among values, which is the best tradeoff? How well will your decision and its underlying rationale likely hold up under public scrutiny?

It is naive to think that ethics can be taught either in the workplace or in business school. Research has shown that such courses make little if any difference and that one’s values and ethics are molded early on in life by our parents, family, church or religious group, and so on. Those values and ethics turn out to be the most reliable indicator of how we will fare when ethically tested later in our careers, no matter what those careers are. However, even people with good values and ethics can, when thrust into morally and ethically challenged cultures, behave unethically.

Corporate social responsibility (CSR) is the idea that business has a duty to serve society as well as the financial interests of investors. CSR can be viewed as a pyramid. At the base is economic responsibility, which is in essence the obligation of a corporation to make profits, provide jobs, and pay taxes. Many people believe, like economist Milton Friedman, that they are a corporation's only social responsibility.

Companies are duty bound to honor the law in whichever country they do business, which constitutes their legal responsibilities. Over the years, many government agencies have been created to enforce appropriate regulations and laws to prevent corporations from inflicting harm on particular constituencies—investors, workers, consumers, the environment, and so on. While these agencies have been, to varying degrees, effective at enforcing regulatory compliance, it is debatable whether laws and regulations have produced change in corporate ethical behavior. An eminent legal scholar, Christopher D. Stone, surmises that the best solution is for corporations to want to behave ethically.

Ethical responsibilities encompass the more general responsibility to do what's right and avoid doing undue harm to others. Many corporations are reluctant to embrace such responsibilities absent pressure from critics, stockholder groups, and lawsuits. Corporations that have tried to be socially responsive act on the belief that they have no obligation to be moral or ethical. Social responsiveness is primarily pragmatic and conveniently sidesteps the true notion of ethical responsibility.

Philanthropic responsibilities engage the corporation's participation in activities that promote human welfare and goodwill. Because such activities are voluntary and discretionary, failure to be philanthropic is not considered unethical and some don't consider it even a responsibility. Fortunately, many companies feel it is their duty to "give back" to society and to contribute in times of emergency or disaster, or to fund cultural and civic activities. Philanthropy goes beyond "doing the right thing," because it is something no one has a right to expect but something for which everyone is thankful.

Environmental responsibilities involve a company's accepting responsibility for and reducing the adverse environmental effects stemming from its operations. While a growing number of corporations are voluntarily becoming more environmentally responsible, others must be forced to do so by the regulations. There is also massive environmental damage that is collectively caused, making it difficult to assign responsibility to anyone and rendering the law helpless. The law lags behind the need, and policymaking lags behind the law; while changes are occurring, the pace is still too slow.

Key Terms

amoral Not knowing the difference between right and wrong or not caring.

corporate social responsibility (CSR) The idea that business has a duty to serve society as well as the financial interest of stockholders.

economic responsibilities Making profits so that the corporation grows and endures while providing jobs and paying taxes.

environmental responsibilities A company's accepting responsibility for and reducing the

adverse environmental effects stemming from its operations.

ethical “mistake” A decision or action that is unintentionally unethical and that an individual or group later regrets and wishes they could somehow undo.

ethical dilemma A choice (ordinarily of action) in which one consideration is the rightness or wrongness of the action.

ethical issues Arise whenever people are tempted to behave unethically or not do the right thing.

ethical responsibilities Encompass the more general responsibility to do what’s right and avoid doing undue harm to others.

ethics (1) The art and discipline of applying principles and frameworks to analyze and resolve complex moral dilemmas.

ethics (2) Is about how we meet the challenge of doing the right thing when it will cost more than we want to pay.

externalities Costs to society, such as air and water pollution, that are produced by companies but not reflected in the company’s cost structure.

immorality Knowing right from wrong and choosing wrong.

legal responsibilities Where companies are duty bound to honor the law (in whichever country they do business) and not break it.

moral Knowing right from wrong and choosing right.

philanthropic responsibilities Are voluntary and engage the corporation’s participation in activities that promote human welfare and goodwill.

unethical act Has immoral intent, done with the full knowledge that it is legally and morally wrong or contravenes the prevailing societal or organizational culture.

unethical behavior Conduct undertaken to benefit a person or organization while knowingly (or being oblivious to the possibility of) harming others. Behavior is still considered unethical if the act is wrongful, whether or not it results in harm.

values The tenets most important to people and organizations and the ways that govern how they choose to live their life.

