A number of American executives have recently begun to complain about the way Japanese-owned companies treat the American executives in their U.S. subsidiaries. These executives claim Japanese firms discriminate based on race and national origin. They suggest that American executives are hired just to start operations in the United States, then are let go to be replaced by Japanese managers. These critics go so far as to say that even when American managers have high-ranking titles in these companies, they are cut out of major meetings and decisions. They believe that there are no authentic upward career paths for non-Japanese in U.S. subsidiaries. In support of these claims, studies show that only 18 percent of top jobs in Japanese companies in the U.S. are held by Americans.

Spokespersons for the Japanese companies under attack admit that Japanese executives prefer to work with other Japanese executives. They say that Japanese people are not comfortable working with non-Japanese workers. They essentially argue that they are not discriminating against Americans, but they do acknowledge a clash of cultures and values. For instance, they point out that the Japanese view of a leader is a person who is quiet, strives for gaining consensus, and is a team player. In contrast, the Japanese see American leaders as assertive and individualistic. As such, they feel Americans don't fit into the way that Japanese managers make decisions. The Japanese claim that Americans can make it to the top in their U.S. operations, but they have to show patience.

Questions

1. Should it be illegal for Japanese-owned companies to impose their management style in their U.S. operations?
2. Women are routinely held back in Japan in favor of men for management positions. Would this be acceptable in the United States? Discuss.
3. Based on what you've read in this chapter, do you think the Japanese are stereotyping American executives, or are Americans actually more assertive, individualistic, and impatient than their Japanese counterparts?
4. What, if anything, could be done to make Japanese executives more sensitive to U.S. laws and customs?

Source: "No Room at the Top," *ABC 20/20,* September 27, 1991.

CHAPTER 5

Social Responsibility and Managerial Ethics

LEARNING OBJECTIVES

After Reading This Chapter, You Should Be Able To:

1. Explain the classical and socioeconomic views of social responsibility.
2. List the arguments for and against business being socially responsible.
3. Differentiate social responsibility from social responsiveness.
4. Explain the relationship between corporate social responsibility and economic performance.
5. Define *stakeholders* and describe their role in social responsibility.
6. Define *ethics*.
7. Differentiate three views on ethics.
8. Identify the factors that affect ethical behavior.
9. Describe the stages of moral development.
10. Discuss various ways in which organizations can improve the ethical behavior of their employees.

Internal memos at Dow Corning have revealed that the company knew for years that its modified silicone breast implant (pictured) leaked and could be a health hazard for more than 2 million women.

Thomas Talcott had been a materials engineer at Dow Corning for 24 years. His job had been to help develop silicone gel for the breast implant manufacturer (see photo). But in 1976 he resigned after the company switched to a more liquid gel designed to make the implants softer and more lifelike. Talcott feared that the thinner gel could rupture or leak and become a serious health hazard. His concerns were ignored by company executives for more than fifteen years. Dow Corning's official position, which it maintained until early 1992, was that their silicone gel implants had been thoroughly tested in animals and presented no health risk to the more than two million women who received them. It now appears that Talcott may have been right and that Dow Corning was not only aware of implant problems for decades but had tried to cover the problem up.[1]

Investigations by newspapers, the Federal Drug Administration, and Congressional subcommittees uncovered company memos indicating that Dow Corning was in such a rush to get its product on the market in 1975 that it either dismissed or short-circuited animal studies showing that silicone leaked from the implants. Internal memos revealed that Dow Corning misrepresented its research results to women, medical professionals, and FDA regulators. The memos showed that the company had long known that silicone could leak from its breast implants into some women's bodies. After decades of denials and stonewalling, Dow Corning finally admitted in early 1992 that it had not been completely honest. It rationalized not releasing the memos earlier for fear of panicking women. Yet, in an action certainly not likely to be very reassuring to those women with Dow Corning implants, the company stated in February 1992 that it would pay for implant removal for any woman who wanted it done but couldn't afford it. And at the same time, consistent with the omnipotent view of management that we presented in Chapter 3, the company announced that it had replaced its chief executive officer, thereby attempting to demonstrate to the public and critical constituencies that it was serious about responding to the implant problem. Shortly thereafter, Dow Corning announced that it would take a $94 million writeoff against potential litigation and get out of the implant business.

Is the Dow Corning cover-up a rare instance of corporate irresponsibility or is it just another example of a decline in business morality? That's not an easy question to answer. There is, however, a lot of evidence that suggests that ethics—or the lack of ethics—is a widespread problem. Consider the following:[2]

> The selling of "pre-packaged" term papers for college students has become so blatant that firms advertise in publications such as *Rolling Stone*.
>
> A poll of more than 6000 college students revealed that 76 percent of those planning business careers admitted to cheating on at least one test and 19 percent admitted to cheating on at least four tests.
>
> In a scandal that shocked the world business community, Japanese investment firms admitted funneling illegal payments to cover the investment losses of favored corporate clients.
>
> Monsanto recently paid a $1.2 million fine to the state of Massachusetts for trying to conceal the discharge of 200,000 gallons of acidic waste water.
>
> A survey of 1400 executives found that 53 percent believed that most successful business people must sometimes fudge principles to get ahead.

In this chapter, we'll establish a foundation for understanding social responsibility and managerial ethics. The discussion of these topics is placed at this point in the text to link them to the preceding and following subjects. Specifically, we'll show that social responsibility is a response to a changing environment and that ethical considerations should be an important criterion in managerial decision making (the topic of Chapter 6).

What is Social Responsibility?

The issue of corporate social responsibility drew little attention before the 1960s. However, the activist movement at that time began to call into question the singular economic objective of business firms. Were large corporations irresponsible because they discriminated against women and minorities, as shown by the obvious absence of female and minority managers at that time? Did Kennecott Copper ignore its social responsibilities by allowing its smelters to pollute the air over hundreds of square miles of Arizona?

Before the 1960s, few people asked such questions. But times have changed. Managers are now regularly confronted with decisions that have a dimension of social responsibility—philanthropy, pricing, employee relations, resource conservation, product quality, and operations in countries with oppressive governments are some of the more obvious. To help managers make such decisions, let's begin by defining social responsibility.

Two Opposing Views

Few terms have been defined in as many different ways as *social responsibility*. Some of the more popular meanings include "profit making only," "going beyond profit making," "voluntary activities," "concern for the broader social system," and "social responsiveness."[3] Most of the debate has focused at the extremes. On one side, there is the classical—or purely economic—view that management's only social responsibility is to maximize profits. On the other side stands the socioeconomic position, which holds that management's responsibility goes well beyond making profits to include protecting and improving society's welfare.

classical view
The view that management's only social responsibility is to maximize profits.

The Classical View The most outspoken advocate of the **classical view** is economist and Nobel laureate Milton Friedman.[4] He argues that most managers today are professional managers, which means that they don't own the businesses they run. They're employees, responsible to the stockholders. Their primary charge is therefore to conduct the business in the interests of the stockholders. And what are those interests? Friedman argues that the stockholders have a single concern: financial return.

According to Friedman, when managers take it upon themselves to spend their organization's resources for the "social good," they undermine the market mechanism. Someone has to pay for this redistribution of assets. If socially responsible actions reduce profits and dividends, stockholders are the losers. If wages and benefits have to be reduced to pay for social action, employees lose. If prices are raised to pay for social actions, consumers lose. If higher prices are rejected by the market and sales drop, the business might not survive—in which case, *all* the organization's constituencies lose. Moreover, Friedman contends that when professional managers pursue anything other than profit, they implicitly appoint themselves as nonelected policymakers. He questions whether managers of business firms have the expertise for deciding how society *should* be. That, Friedman would argue, is what we elect political representatives to decide.

Friedman's argument is probably best understood in terms of microeconomics. If socially responsible acts add to the cost of doing business, those costs have to be either passed on to consumers in higher prices or absorbed by stockholders through a smaller profit margin. In a competitive market, if management raises prices, it will lose sales. In a purely competitive market, given that the competition hasn't also assumed the costs of social responsibility, prices can't be raised without losing the entire market. Such a situation means that the costs have to be absorbed by the business, which results in lower profits.

The classical view would also argue that there are pressures in a competitive market for investment funds to go where they'll get the highest return. If the socially responsible firm can't pass on its higher social costs to consumers and has to absorb them internally, it will generate a lower rate of return. Over time, investment funds will gravitate away from socially responsible firms toward those that aren't, since the latter will provide the higher rate of return. That might even mean that if all the firms in a particular country—such as the United States—incurred additional social costs because management perceived this to be one of business's goals, the survival of entire domestic industries could be threatened by foreign competitors who chose not to incur such social costs.

The Socioeconomic View The socioeconomic position counters that times have changed and with them society's expectations of business. This is best illustrated in the legal formation of corporations. Corporations are chartered by state governments. The same government that creates a charter can take it away. So corporations are not independent entities, responsible only to stockholders. They also have a responsibility to the larger society that creates and sustains them.

socioeconomic view
The view that management's social responsibility goes well beyond the making of profits to include protecting and improving society's welfare.

One author, in supporting the **socioeconomic view,** reminds us that "maximizing profits is a company's second priority, not its first. The first is ensuring its survival."[5]

Take the case of the Manville Corporation. Nearly fifty years ago, its senior management had evidence that one of its products, asbestos, caused fatal lung diseases. As a matter of policy, management decided to conceal the information from affected employees. The reason? Profits! In court testimony, a lawyer recalled how, in the mid-1940s, he had questioned Manville's corporate counsel about the company's policy of concealing chest X-ray results from employees. The lawyer had asked, "Do you mean to tell me you would let them work until they dropped dead?" The reply was, "Yes, we save a lot of money that way."[6] This might have been true in the short run, but certainly not in the long term. The company was forced to file for bankruptcy in 1982 to protect itself against tens of thousands of potential asbestos-related lawsuits. It emerged from bankruptcy in 1988, but with staggering asbestos-related liabilities. To compensate victims, Manville agreed to set up a personal injury settlement trust, funding it with $2.6 billion in cash and bonds and up to 20 percent of the company's annual profits through the year 2015.[7] Here is an example of what can happen when management takes a short-term perspective. Many workers died before their time, the stockholders lost a great deal of money, and a major corporation was forced into reorganization.

Government health and safety inspections provide basic protection for employees. Many employers, however, consistent with the socioeconomic view, go beyond what the law requires.

A major flaw in the classicists' view, as seen by socioeconomic proponents, is their time frame. Supporters of the socioeconomic view contend that managers should be concerned with maximizing financial returns over the *long run*. To do that, they must accept some social obligations and the costs that go with them. They must protect society's welfare by *not* polluting, *not* discriminating, *not* engaging in deceptive advertising, and the like. They must also play an affirmative role in improving society by involving themselves in their communities and contributing to charitable organizations.

A final point made by proponents of the socioeconomic position is that the classical view flies in the face of reality.[8] Modern business firms are no longer merely economic institutions. They lobby, form political action committees, and engage in other activities to influence the political process for their benefit. Society accepts and even encourages business to become involved in its social, political, and legal environment. That might not have been true thirty or forty years ago, but it is the reality of today.

Arguments For and Against Social Responsibility

What are the specific arguments for and against business assuming social responsibilities? In this section, we'll outline the major points that have been brought forward.[9]

Arguments For The major arguments supporting the assumption of social responsibilities by business are:

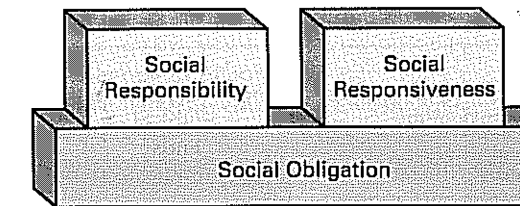
1. *Public expectations.* Social expectations of business have increased dramatically since the 1960s. Public opinion in support of business pursuing social as well as economic goals is now well solidified.
2. *Long-run profits.* Socially responsible businesses tend to have more secure long-run profits. This is the normal result of the better community relations and improved business image that responsible behavior brings.
3. *Ethical obligation.* A business firm can and should have a conscience. Business should be socially responsible because responsible actions are *right* for their own sake.

4. *Public image.* Firms seek to enhance their public image to gain more customers, better employees, access to money markets, and other benefits. Since the public considers social goals to be important, business can create a favorable public image by pursuing social goals.
5. *Better environment.* Involvement by business can solve difficult social problems, thus creating a better quality of life and a more desirable community in which to attract and hold skilled employees.
6. *Discouragement of further government regulation.* Government regulation adds economic costs and restricts management's decision flexibility. By becoming socially responsible, business can expect less government regulation.
7. *Balance of responsibility and power.* Business has a large amount of power in society. An equally large amount of responsibility is required to balance it. When power is significantly greater than responsibility, the imbalance encourages irresponsible behavior that works against the public good.
8. *Stockholder interests.* Social responsibility will improve the price of a business's stock in the long run. The stock market will view the socially responsible company as less risky and open to public attack. Therefore, it will award its stock a higher price–earnings ratio.
9. *Possession of resources.* Business has the financial resources, technical experts, and managerial talent to provide support to public and charitable projects that need assistance.
10. *Superiority of prevention over cures.* Social problems must be dealt with at some time. Business should act on them before they become more serious and costly to correct and take management's energy away from accomplishing its goal of producing goods and services.

Arguments Against The major arguments against business assuming social responsibility are:

1. *Violation of profit maximization.* This is the essence of the classical viewpoint. Business is most socially responsible when it attends strictly to its economic interests and leaves other activities to other institutions.
2. *Dilution of purpose.* The pursuit of social goals dilutes business's primary purpose: economic productivity. Society may suffer as both economic and social goals are poorly accomplished.
3. *Costs.* Many socially responsible activities don't pay their own way. Someone has to pay these costs. Business must absorb these costs or pass them on to consumers in higher prices.
4. *Too much power.* Business is already one of the most powerful institutions in our society. If it pursues social goals, it would have even more power. Society has given business enough power.
5. *Lack of skills.* The outlook and abilities of business leaders are oriented primarily toward economics. Businesspeople are poorly qualified to cope with social issues.
6. *Lack of accountability.* Political representatives pursue social goals and are held accountable for their actions. Such is not the case with business leaders. There are no direct lines of social accountability from the business sector to the public.
7. *Lack of broad public support.* There is no broad mandate from society for business to become involved in social issues. The public is divided on the issue. In fact, it is a topic that rarely fails to generate a heated debate. Actions taken under such divided support are likely to fail.

FIGURE 5–1
Levels of Social Involvement



From Obligations to Responsiveness

social responsibility
An obligation, beyond that required by the law and economics, for a firm to pursue long-term goals that are good for society.

social obligation
The obligation of a business to meet its economic and legal responsibilities.

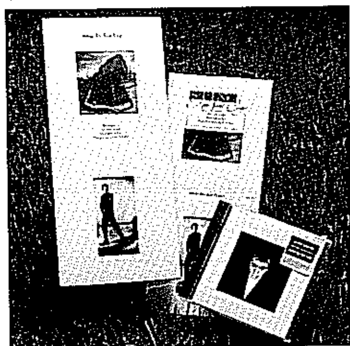
social responsiveness
The capacity of a firm to adapt to changing societal conditions.

Now it's time to narrow in on precisely what *we* mean when we talk about **social responsibility.** It is a business firm's obligation, beyond that required by the law and economics, to pursue long-term goals that are good for society.[10] Note that this definition assumes that business obeys the law and pursues economic interests. We take as a given that all business firms—those that are socially responsible and those that aren't—will obey all laws that society imposes. Also note that this definition views business as a moral agent. In its effort to do *good* for society, it must differentiate between right and wrong.

We can understand social responsibility better if we compare it with two similar concepts: social obligation and social responsiveness.[11] As Figure 5–1 depicts, social obligation is the foundation of business's social involvement. A business has fulfilled its **social obligation** when it meets its economic and legal responsibilities and no more. It does the minimum that the law requires. A firm pursues social goals only to the extent that they contribute to its economic goals. In contrast to social obligation, both social responsibility and social responsiveness go beyond merely meeting basic economic and legal standards.

Social responsibility adds an ethical imperative to do those things that make society better and *not* to do those that could make it worse. **Social responsiveness** refers to the capacity of a firm to adapt to changing societal conditions.[12]

Several years ago Best Western Hotels came out against a bill introduced in Congress that would require all sizable hotels (those over three stories) to install sprinklers in all rooms. Said the company's CEO, "We support public safety. But this is the sort of thing the local building codes should handle. The federal government shouldn't be policing this." In the five years preceding this comment, more than 400 people were killed in the United States in hotel fires. This is an example of an organization meeting its social obligation and nothing more.



The record industry shows its social responsiveness by repackaging compact discs. The 6-by-12 inch longbox cardboard packaging was designed to thwart shoplifters and to fit neatly into preexisting album bins. But the longbox consumed twice as much paper as it needed. In response to vocal environmentalists, the industry developed less wasteful packaging.

TABLE 5–1 Social Responsibility Versus Social Responsiveness

	Social Responsibility	Social Responsiveness
Major consideration	Ethical	Pragmatic
Focus	Ends	Means
Emphasis	Obligation	Responses
Decision framework	Long-term	Medium- and short-term

Source: Adapted from Steven L. Wartick and Philip L. Cochran, "The Evolution of the Corporate Social Performance Model," *Academy of Management Review*, October 1985, p. 766.

As Table 5–1 describes, social responsibility requires business to determine what is right or wrong and thus seek fundamental ethical truths. Social responsiveness is guided by social norms. The value of social norms is that they can provide managers with a more meaningful guide for decision making. The following makes the distinction clearer.

Suppose, for example, that a multiproduct firm's social responsibility is to produce reasonably safe products. Similarly, the same firm is responsive every time it produces an unsafe product: it withdraws the product from the market as soon as the product is found to be unsafe. After, say, ten recalls, will the firm be recognized as socially responsible? Will the firm be recognized as socially responsive? The likely answers to these questions are No to the first, but Yes to the second.[13]

When a company meets pollution control standards established by the federal government or doesn't discriminate against employees over the age of 40 in promotion decisions, it is meeting its social obligation and nothing more. The law says that the company may not pollute or practice age discrimination. In the 1990s, when Du Pont provides on-site child care facilities for employees, Procter & Gamble declares that Tide "is packaged in 100 percent recycled paper," and the head of the world's largest tuna canner says, "StarKist will not purchase, process or sell any tuna caught in association with dolphins," these firms are being socially responsive. Why? Pressure from working mothers and environmentalists make such practices pragmatic. Of course, if these same companies had provided child care, offered recycled packaging, or sought to protect dolphins back in the early 1970s, it probably would have been accurately characterized as a socially responsible action.

Advocates of social responsiveness believe that the concept replaces philosophical discourse with pragmatism. They see it as a more tangible and achievable objective than social responsibility.[14] Rather than assessing what is good for society in the long term, a socially responsive management identifies the prevailing social norms and then changes its social involvement to respond to changing societal conditions.

Social Responsibility and Economic Performance

In this section, we seek to answer the question, "do socially responsible activities lower a company's economic performance?"

More than a dozen studies have looked at this question.[15] All have some methodological limitations related to measures of "social responsibility" and "economic performance."[16] Most ascertain a firm's social performance by analyzing the content of annual reports, citations of social actions in articles on the company, or public perception "reputation" indexes. Such criteria certainly have flaws as objective, reliable measures of social responsibility. Whereas measures of economic performance (net income, return on equity, or per share stock prices) are more objective, they are generally used to indicate only short-term financial performance. It may well be that the impact of social responsibility on a firm's profits—either positive or negative—takes a number of years to work itself through. Assuming there is this time lag, studies that use short-term financial data aren't likely to show valid results. And there is also the issue of causation. If, for example, the evidence were to show that social involvement and economic performance were positively related, this wouldn't mean that social involvement *caused* higher economic performance. It might well be the reverse. That is, it might show that high profits permit firms the luxury of being socially involved.[18]

Given these cautions, what do the research studies find? The majority show a *positive* relationship between corporate social involvement and economic performance. Only one review of thirteen studies found a negative association—in this case, the price of socially responsible firms' stocks didn't do as well as national stock indices.[19] The logic underlying this positive relationship is that social involvement provides a number of benefits to a firm that more than offset their costs. These would include a positive consumer image, a more dedicated and motivated work force, and less interference from regulators.[20]

There is also another way to look at this issue. Let's examine a set of socially conscious mutual stock funds that have been developed in recent years and compare

MANAGERS WHO MADE A DIFFERENCE

Faith Wohl at Du Pont Co.

Faith Wohl's official title is director of work-force partnering. Her actual job is to oversee and champion programs at Du Pont that address employees' personal and social concerns. A passionate advocate of pro-family policies, Wohl has been described as the company's "in-house conscience."[17]

Wohl joined Du Pont in 1973 and zipped through a number of assignments in public relations. In 1989, she was promoted to her current job, where she directs a nineteen-person staff that handles a variety of programs including job sharing, elder care, and workshops on work-force diversity and sexual harassment.

In the first three years on her current job, Wohl has turned once-staid Du Pont into a corporate ground-breaker that helps its employees balance family life and careers. For instance, Du Pont recently spent $1.5 million to build and renovate child-care centers near its major work sites; set up a day-care referral service that's used by Du Pont and 75 other companies; established "work-life" committees at more than 50 U.S. locations where employees can suggest new programs and changes in current ones; and introduced a pacesetting leave policy for birth, adoption, or a relative's illness—six months of unpaid time off, with full benefits, on top of six weeks' paid time off.

In spite of Wohl's successes, she sees room for Du Pont to do considerably more if the company is to become truly "family-friendly." For instance, one immediate project on her schedule is to provide buses to take employees' children from offices to summer camps. In the much longer term, Wohl would like to see Du Pont emulating French corporations by giving employees a month-long summer vacation.

Most socially conscious funds specifically exclude investments in companies like RJR Nabisco and Philip Morris because they're major manufacturers of tobacco products.

TABLE 5-2 Total Returns of Socially Conscious Funds, 1986-1990

Fund	Return
Calvert Social Investment	74%
Dreyfus Third Century	59
Pax World	77
Pioneer Fund	68
Pioneer II	60
Pioneer III	47
All equity funds	69

Source: Lipper Analytical Services

their performance to the average of all mutual funds. Table 5-2 lists six of the largest and most popular funds in the United States that represent themselves as being responsible investors.[21] In recent years, these funds have not invested in companies that are connected with manufacturing defense weapons, that use nuclear power, that are involved in liquor, gambling, tobacco, price fixing, or criminal fraud. As you can see, between 1986 and 1990 these socially conscious funds performed very close to the same level as the average of equity funds as a group.

What can we draw from all this? In aggregate, the evidence suggests that the most meaningful conclusion we can make is that there is little substantive evidence to say that a company's socially responsible actions significantly reduce its long-term economic performance. Given the current political and social pressures on business to pursue social goals, this may have the greatest significance for managerial decision making. So, to answer our opening question, do socially responsible activities lower a company's economic performance? The answer seems to be "No!"

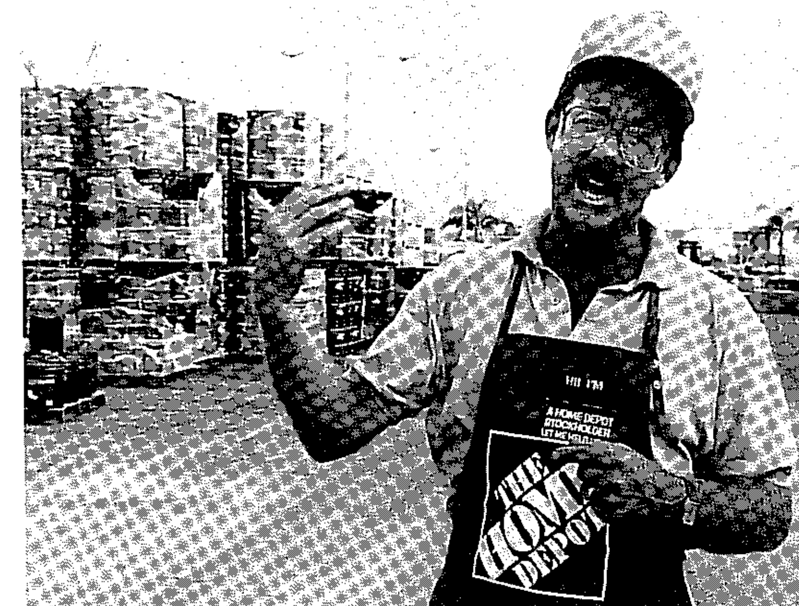
Is Social Responsibility Just Profit-Maximizing Behavior?

If social responsibility does not affect economic performance negatively, maybe the whole notion of social responsibility is just a fancy public relations concept that allows corporate management to appear socially conscious while it pursues its profit objectives. That is, socially responsible actions might be nothing more than profit-maximizing actions in disguise. While this line of questioning appears to be cynical, business students, the media, and other groups regularly challenge any implication that business's pursuit of social goals is altruistically motivated.

cause-related marketing
Performing social actions that are motivated directly by profits.

There is no question that some social actions taken by companies are motivated primarily by profits. In fact, the practice has acquired a name: **cause-related marketing.**[22] Firms such as American Express, Coca-Cola, General Foods, and MasterCard make no apologies for capitalizing on the public's social conscience.[23] As an executive at American Express put it, "Social responsibility is a good marketing hook."[24]

The idea behind cause-related marketing is to find a social cause that fits well with a company's product or service, and then tie them together for mutual benefit. That, for instance, is what Razcal Corp., a small firm in Massachusetts that makes and sells a raspberry-lime soda for the teen market, recently did.[25] For years, Mothers Against Drunk Driving (MADD) had tried to get high schools to participate in a poster contest with an antidrinking theme. But few schools signed up. Razcal saw an opportunity. Both Razcal and MADD wanted to target teenagers, and both were interested in the issue of beverage consumption. So Razcal offered to pay for and execute a slick direct-mail campaign for the poster contest, which went to 4,000 high schools in New England. Three thousand students representing about 500 schools eventually participated in the contest. The total cost to Razcal—including mailings, promotions, and prizes—was $25,000. The result? Razcal's sales doubled in one year from 250,000 cases to 500,000. In addition, supermarkets waived shelf-space fees and even provided point-of-purchase displays to ally themselves with the MADD-Razcal antidrinking effort.



Hurricane Andrew, which hit southern Florida and coastal Louisiana in August 1992, did tens of billions of dollars in damage and created a quarter-of-a-million homeless. Dozens of corporations responded. Building materials retailer Home Depot, for instance, *reduced* its prices for exterior plywood in its south Florida stores, foregoing millions in profits. Its competitors raised prices an average of 100 percent—from $8 to $16 per sheet. Says Jeff Barrington, manager of the Home Depot in Kendall, Florida, "This will pay us back—people will remember."

Research indicates that corporate philanthropy complements advertising and is motivated by profit considerations.[26] In fact, *Business Week* has described cause-related marketing as "the hottest thing going in philanthropy."[27]

So what's our conclusion? Is social responsibility just profit-maximizing behavior? While we obviously can't speak for the motivation of every "social" act by business firms, it is clear that at least some of these actions are profit motivated and consistent with the classical goal of economic maximization. Incidentally, this may explain why so many of the research studies cited in the previous section found a positive relationship between corporate social responsibility and economic performance.

A Guide Through the Maze

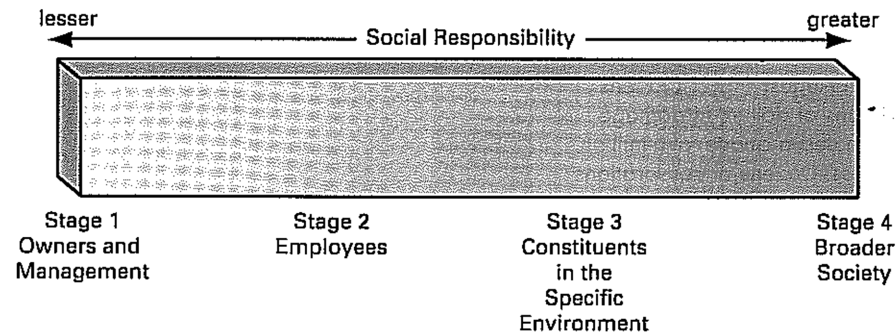
To this point, we've presented a number of issues related to social responsibility. Unfortunately, they don't lead us down a straight and clear path. In this section, we'll provide a modest guide through the maze and, in so doing, try to clarify the key issues.

stakeholders
Any constituency in the environment that is affected by an organization's decisions and policies.

The path will become easier to follow if we can identify the people to whom business managers are responsible. Classicists would say that stockholders or owners are their only legitimate concern. Progressives would respond that managers are responsible to any individual or group that is affected by the organization's decisions and policies.[28] These **stakeholders** are any constituency in an organization's environment: government agencies, unions, employees, customers, suppliers, host communities, and public interest groups.

Figure 5-2 illustrates a four-stage model of the expansion of an organization's

FIGURE 5–2
To Whom Is Management Responsible?



social responsibility.[29] What you do as a manager, in terms of pursuing social goals, depends on the person or persons to whom you believe you're responsible. A Stage 1 manager will promote the stockholders' interest by seeking to minimize costs and maximize profits. At Stage 2, managers will accept their responsibility to their employees and focus on human resource concerns. Because they'll want to get, keep, and motivate good employees, they'll improve working conditions, expand employee rights, increase job security, and the like.

At Stage 3, managers will expand their goals to include fair prices, high-quality products and services, safe products, good supplier relations, and similar practices. Stage 3 managers perceive that they can meet their responsibilities to stockholders only indirectly by meeting the needs of their other constituents.

Finally, Stage 4 aligns with the extreme socioeconomic definition of social responsibility. At this stage, managers are responsible to society as a whole. Their business is seen as a public property, and they are responsible for advancing the public good. The acceptance of such responsibility means that managers actively promote social justice, preserve the environment, and support social and cultural activities. They take these stances even if such actions negatively affect profits.

Each stage carries with it an increasing level of managerial discretion. As managers move to the right along the continuum in Figure 5–2, they have to make more judgment calls. At Stage 4, they are required to impose their values of right and wrong on society. When is a product, for example, dangerous to society? Is RJR Nabisco

These autoworkers are protesting layoffs at General Motors. Is GM acting socially irresponsible when it lays off employees? At what stage of Figure 5-2 would you say GM belongs?

doing "right" for society when it markets Oreo cookies but "wrong" when it sells cigarettes? Or perhaps producing cookies with a high sugar content is also wrong? Is a public utility that operates nuclear power plants behaving irresponsibly toward society? Is it wrong for a company to take advantage of all potential tax loopholes, even if this means paying little or no tax on billions of dollars of profits?

There is no simple right–wrong dichotomy that can help managers to make socially responsible decisions. Clearly, managers of business firms have a basic responsibility to obey the law and make a profit. Failure to achieve either of these goals threatens the organization's survival. Beyond that, managers need to identify the people to whom they believe they are responsible. We suggest that by focusing on their stakeholders and their expectations of the organization, managers reduce the likelihood that they will ignore their responsibilities to critical constituencies, or alienate them.

Managerial Ethics

Is it ethical for a salesperson to offer a bribe to a purchasing agent as an inducement to buy? What if the bribe comes out of the salesperson's commission? Does that make it any different? Is it ethical for someone to understate his or her educational qualifications in order to get a job during hard times if that person would ordinarily be considered overqualified for the job? Is it ethical for someone to use company gasoline for private use? How about using the company telephone for personal long-distance calls? Is it ethical to ask a company secretary to type personal letters?[30]

ethics
Rules and principles that define right and wrong conduct.

Ethics commonly refers to the rules or principles that define right and wrong conduct.[31] In this section, we want to look at the ethical dimension of managerial decisions. Many decisions that managers make require them to consider who may be affected—in terms of the result as well as the means.[32] We'll present three different views on ethics and look at the factors that influence a manager's ethics. We'll conclude by offering some suggestions for what organizations can do to improve the ethical behavior of employees.

Three Different Views on Ethics

utilitarian view of ethics
Decisions are made solely on the basis of their outcomes or consequences.

There are three different views on ethical standards.[33] The first is the **utilitarian view of ethics,** in which decisions are made solely on the basis of their outcomes or consequences. The goal of utilitarianism is to provide the greatest good for the greatest number. Following the utilitarian view, a manager might conclude that laying off 20 percent of the work force in her plant is justified because it will increase the plant's profitability, improve job security for the remaining 80 percent, and be in the best interest of stockholders. On one side, utilitarianism encourages efficiency and productivity and is consistent with the goal of profit maximization. On the other side, however, it can result in biased allocations of resources, especially when some of those affected lack representation or voice. Utilitarianism can also result in the rights of some stakeholders being ignored.

rights view of ethics
Decisions are concerned with respecting and protecting basic rights of individuals.

Another ethical perspective is the **rights view of ethics.** This position is concerned with respecting and protecting individual liberties and privileges, including the rights to privacy, freedom of conscience, free speech, and due process. This would include, for example, protecting the rights of employees to free speech when they report violations of laws by their employers. The positive side of the rights perspective is that it protects individuals' freedom and privacy. But it has a negative side in organizations: It can present obstacles to high productivity and efficiency by creating an overly legalistic work climate.

The culture that Sears, Roebuck created in its California auto centers encouraged employees to systematically recommend unneeded repairs to its customers. Sears settled the case by agreeing to pay California $3.5 million for legal costs, to contribute $1.5 million to auto repair training programs at community colleges, to distribute up to $46.6 million in free-merchandise coupons to disgruntled customers, and to make full refunds to consumers who believe they were overcharged on repairs.

theory of justice view of ethics
Decision makers seek to impose and enforce rules fairly and impartially.

The final view is the **theory of justice view of ethics.** This calls upon managers to impose and enforce rules fairly and impartially. A manager would be using a theory of justice perspective in deciding to pay a new entry-level employee $1.50 an hour over the minimum wage because that manager believes that the minimum wage is inadequate to allow employees to meet their basic financial commitments. Imposing standards of justice also comes with pluses and minuses. It protects the interests of those stakeholders who may be underrepresented or lack power; but it can encourage a sense of entitlement that reduces risk-taking, innovation, and productivity.

It has been found that most businesspeople continue to hold utilitarian attitudes toward ethical behavior.[34] This shouldn't be totally surprising, since this view is consistent with such goals as efficiency, productivity, and high profits. By maximizing profits, for instance, an executive can argue that he or she is securing the greatest good for the greatest number.

Because of the changing world of management, that perspective needs to change. Utilitarianism sacrifices the welfare of minorities in the interest of the majority. New trends toward individual rights and social justice mean that managers need ethical standards based on nonutilitarian criteria. This is a solid challenge to today's manager because making decisions using criteria such as individual rights and social justice involves far more ambiguities than using utilitarian criteria such as effects on efficiency and profits. The result, of course, is that managers increasingly find themselves facing ethical dilemmas.

Factors Affecting Managerial Ethics

Whether a manager acts ethically or unethically is the result of a complex interaction between the manager's stage of moral development and the moderating variables of individual characteristics, the organization's structural design, the organization's culture, and the intensity of the ethical issue.[35] (See Figure 5–3.) People who lack a strong moral sense are much less likely to do the wrong things if they are constrained by rules, policies, job descriptions, or strong cultural norms that frown on such behaviors. Conversely, very moral people can be corrupted by an organizational structure and culture that permit or encourage unethical practices. Moreover, managers are more likely to make ethical decisions on issues where high moral intensity is

MANAGING FROM A GLOBAL PERSPECTIVE

Ethics in an International Context

Are ethical standards universal across national borders? Hardly! Social and cultural differences between countries are important environmental factors that define ethical and unethical behavior.

The manager of a Mexican firm bribes several high-ranking government officials in Mexico City to secure a profitable government contract for his firm. Such a practice would be seen as unethical, if not illegal, in the United States, but it's a standard business practice in Mexico.

Should IBM employees in Saudi Arabia adhere to U.S. ethical standards, or should the phrase "When in Rome do as the Romans do" guide them? If Airbus (a European firm) will pay a $10 million "broker's fee" to a middleman to get a major contract with a Middle Eastern airline, should Boeing be restricted from doing the same because such practices are considered improper in the United States?

In the case of payments to influence foreign officials or politicians, there is a law to guide U.S. managers. The Foreign Corrupt Practices Act, passed in 1977, makes it illegal for U.S. firms to knowingly corrupt a foreign official. Even this doesn't always reduce ethical problems to black or white. In some Latin American countries, for example, government bureaucrats are paid ridiculously low salaries because custom dictates that they receive small payments from those they serve. These payoffs grease the machinery of government and ensure that things get done. The Foreign Corrupt Practices Act does not expressly outlaw small payoffs to foreign government employees whose duties are primarily ministerial or clerical when such payoffs are an accepted part of a country's business practices.

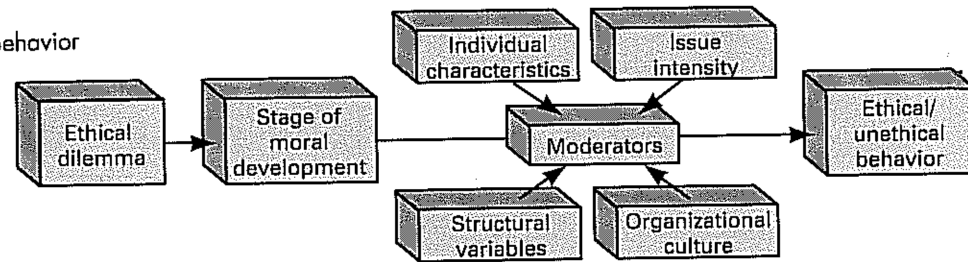
Levi Strauss has decided to export its U.S. ethical standards.[36] After recently investigating its 400 foreign contractors, the company found that approximately 25 percent were overtly exploiting their workers. One contractor on the island of Saipan, for instance, worked its people 11 hours a day, seven days a week! Others routinely used child labor. To eliminate these abuses, Levi Strauss' management has adopted strict guidelines for its foreign contractors—including providing safe and healthy working conditions and requiring pay levels that are no lower than prevailing local wages. To insure that the guidelines are followed, inspectors from U.S. headquarters now make surprise visits.

involved. Let's look at the various factors that eventually influence whether managers behave ethically or unethically.

Stage of Moral Development There is a substantial body of research that confirms the existence of three levels of moral development, each comprised of two stages.[37] At each successive stage, an individual's moral judgment grows less and less dependent on outside influences. The three levels and six stages are described in Table 5–3.

The first level is labeled *preconventional.* At this level, individuals respond to notions of right or wrong only when there are personal consequences involved, such as physical punishment, reward, or exchange of favors. Reasoning at the *conventional* level indicates that moral value resides in maintaining the conventional order

FIGURE 5–3
Factors Affecting Ethical/Unethical Behavior



and the expectations of others. In the *principled* level, individuals make a clear effort to define moral principles apart from the authority of the groups to which they belong or society in general.

Research on these stages of moral development allows us to draw several conclusions.[38] First, people proceed through the six stages in a lock-step fashion. They gradually move up a ladder, stage by stage. They don't jump steps. Second, there is no guarantee of continued development. Development can terminate at any stage. Third, the majority of adults are at Stage 4. They are limited to obeying the rules and laws of society. Finally, the higher the stage a manager reaches, the more he or she will be predisposed to behave ethically. For instance, a Stage 3 manager is likely to make decisions that will receive approval by his or her peers; a Stage 4 manager will seek to be a "good corporate citizen" by making decisions that respect the organization's rules and procedures; and a Stage 5 manager is more likely to challenge organizational practices that he or she believes to be wrong. Many of the recent efforts by colleges to raise students' ethical awareness and standards are focused on helping them move to the principled level.

TABLE 5–3 Stages of Moral Development

Level	Stage description
Preconventional	
Influenced exclusively by personal interest. Decisions are made in terms of self-benefit as defined by the rewards and punishments that come from different types of behavior.	1. Sticking to rules to avoid physical punishment 2. Following rules only when it's in your immediate interest
Conventional	
Influenced by the expectations of others. Includes obedience to the law, response to the expectations of significant others, and a general sense of what is expected.	3. Living up to what is expected by people close to you 4. Maintaining conventional order by fulfilling obligations to which you have agreed
Principled	
Influenced by personal ethical principles of what is right. These may or may not be in accordance with rules or laws of society.	5. Valuing rights of others; and upholding nonrelative values and rights regardless of the majority's opinion 6. Following self-chosen ethical principles even if they violate the law

Source: Based on Lawrence Kohlberg, "Moral Stages and Moralization: The Cognitive-Developmental Approach," in T. Lickona, ed., *Moral Development and Behavior: Theory, Research, and Social Issues* (New York: Holt, Rinehart & Winston, 1976), pp. 34–35.

values
Basic convictions about what is right and wrong.

Individual Characteristics Every person enters an organization with a relatively entrenched set of **values.** Developed in an individual's early years—from parents, teachers, friends, and others—these values represent basic convictions about what is right and wrong. Thus managers in an organization often possess very different personal values.[39] Note that while *values* and *stage of moral development* may seem similar, they are not. The former are broad and cover a wide range of issues while the latter is specifically a measure of independence from outside influences.

Two personality variables have also been found to influence an individual's actions according to his or her beliefs about what is right or wrong. They are ego strength and locus of control.

ego strength
A personality characteristic that measures the strength of a person's convictions.

Ego strength is a personality measure of the strength of a person's convictions. People who score high on ego strength are likely to resist impulses and follow their convictions more than those who are low on ego strength. That is, individuals high in ego strength are more likely to do what they think is right. We would expect managers with high ego strength to demonstrate more consistency between moral judgment and moral action than those with low ego strength.

locus of control
A personality attribute that measures the degree to which people believe they are masters of their own fate.

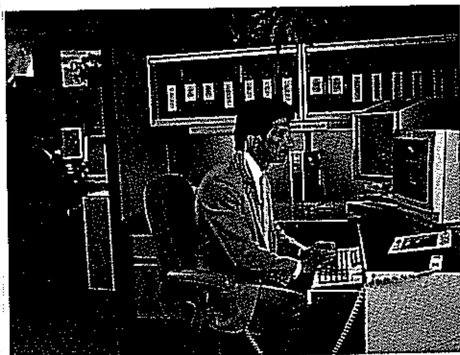
Locus of control is a personality attribute that measures the degree to which people believe they are masters of their own fate. People with an internal locus of control believe that they control their own destinies, while those with an external locus believe that what befalls them in life is due to luck or chance. From an ethical perspective, externals are less likely to take personal responsibility for the consequences of their behavior and are more likely to rely on external forces. Internals, on the other hand, are more likely to take responsibility for consequences and rely on their own internal standards of right and wrong to guide their behavior.[40] Managers with an internal locus of control will probably demonstrate more consistency between their moral judgments and moral actions than will "external" managers.

Structural Variables An organization's structural design helps to shape the ethical behavior of managers. Some structures provide strong guidance, while others only create ambiguity for managers. Structural designs that minimize ambiguity and continuously remind managers of what is "ethical" are more likely to encourage ethical behavior.

Formal rules and regulations reduce ambiguity. Job descriptions and written codes of ethics are examples of formal guides that promote consistent behavior. Research continues to indicate, though, that the behavior of superiors is the strongest single influence on an individual's own ethical or unethical behavior.[41] People check to see what those in authority are doing and use that as a benchmark for acceptable practices and what is expected of them. Some performance appraisal systems focus exclusively on outcomes. Others evaluate means as well as ends. Where managers are appraised only on outcomes, there will be increased pressures to do "whatever is necessary" to look good on the outcome variables. Closely associated with the appraisal system is the way rewards are allocated. The more rewards or punishments depend on specific goal outcomes, the more pressure there is on managers to reach those goals and compromise their ethical standards. Structures also differ in the amount of time, competition, cost, and similar pressure they place on job incumbents. The greater the pressure, the more likely it is that managers will compromise their ethical standards.

Organization's Culture The content and strength of an organization's culture also influence ethical behavior.[42]

A culture that is likely to shape high ethical standards is one that is high in risk tolerance, high in control, and high in conflict tolerance. Managers in such a culture will be encouraged to be aggressive and innovative, aware that unethical practices will be found out, and will feel free to openly challenge demands or expectations they consider to be unrealistic or personally distasteful.



General Electric has made an impressive commitment to high ethical standards by its employees. For instance, GE employees can tap into specially designed interactive software on their personal computers to get answers to ethical questions. Additionally, the company has seminars and videos that encourage employees to report any wrongdoings. Nevertheless, GE recently pleaded guilty and paid $70 million to settle charges that it punished employees who reported wrongdoings. Employees claimed they were fired for following the company's compliance procedures.

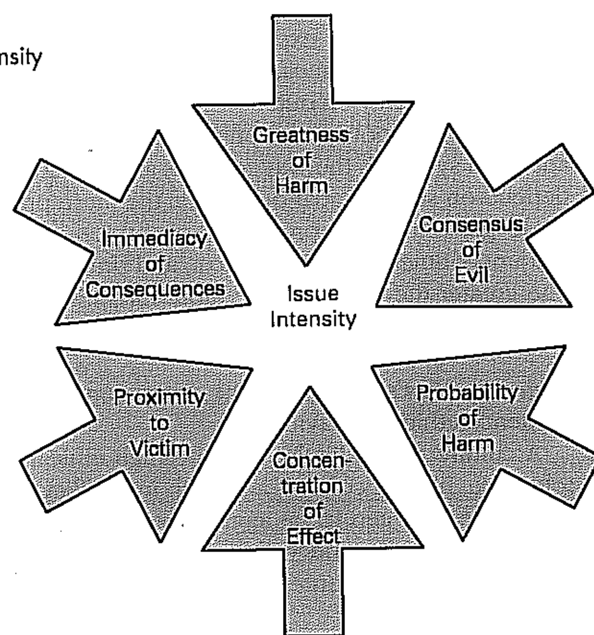
A strong culture will exert more influence on managers than a weak one. If the culture is strong and supports high ethical standards, it should have a very powerful and positive influence on a manager's ethical behavior. Johnson & Johnson, for example, has a strong culture that has long stressed obligations to customers, employees, the community, and shareholders, in that order. When poisoned Tylenol was found on store shelves in 1982 and 1986, J&J employees across the United States independently pulled the product from these stores before J&J had even issued a statement concerning the poisonings. No one had to tell these people what was morally right; they knew what J&J would expect them to do. In a weak culture, however, managers are more likely to rely on subculture norms as a behavioral guide. Work groups and departmental standards will strongly influence ethical behavior in organizations that have weak overall cultures.

Issue Intensity A student who would never consider breaking into an instructor's office in order to steal an introductory accounting exam doesn't think twice about asking a friend who took the same accounting course from the same instructor last term, what questions were on last term's exam. Similarly, an executive might think nothing about taking home a few office supplies yet be highly concerned about the possible embezzlement of company funds.

These examples illustrate the final factor that affects a manager's ethical behavior—the characteristics of the ethical issue itself.[43] As Figure 5–4 illustrates, six characteristics have been identified as relevant in determining issue intensity:[44]

1. How great a harm (or benefit) is done to victims (or beneficiaries) of the ethical act in question? *Example:* An act that puts 1000 people out of work is more harmful than one affecting only ten people.
2. How much consensus is there that the act is evil (or good)? *Example:* More Americans agree that it is evil to bribe a customs official in Texas than agree that it is evil to bribe a customs official in Mexico.
3. What is the probability that the act will actually take place and will actually cause the harm (or benefit) predicted? *Example:* Selling a gun to a known armed robber has greater probability of harm than selling a gun to a law-abiding citizen.
4. What's the length of time between the act in question and its expected consequences? *Example:* Reducing the retirement benefits of current retirees has greater immediate consequences than reducing the retirement benefits of current employees who are between the ages of 40 and 50.
5. How close do you feel (socially, psychologically, or physically) to the victims (or beneficiaries) of the evil (beneficial) act in question? *Example:* Layoffs in one's own work unit hit closer to home than do layoffs in a remote city.
6. How large is the concentrated effect of the ethical act on the people involved? *Example:* A change in the warranty policy denying coverage to ten people with claims of $10,000 has a more concentrated effect than a change denying coverage to 10,000 people with claims of $10.00.

FIGURE 5–4
Characteristics Determining Issue Intensity



Following these guidelines, the larger the number of people harmed, the greater the consensus that an act is evil, the higher the probability that an act will take place and actually cause harm, the shorter the length of time until the consequences of the act surface, and the closer the observer feels to the victims of the act, the greater the issue intensity. In aggregate, these six components determine how important an ethical issue is. And we should expect managers to behave more ethically when a moral issue is important to them than when it is not.

Toward Improving Ethical Behavior

A number of things can be done if top management seriously wants to reduce unethical practices in its organization. It can seek to select individuals with high ethical standards, establish codes of ethics and decision rules, lead by example, delineate job goals, and provide ethics training. Taken individually, these actions will probably not make much of an impact; but when all or most of them are implemented as part of a comprehensive program, they have the potential to improve an organization's ethical climate significantly. The key term here, however, is *potential*. There are no guarantees that a well-designed program will lead to the outcome desired. Dow Corning, for instance, has long been recognized as a pioneer in corporate ethics, and its ethics program has been cited as among the most elaborate in corporate America.[45] However, as we learned at the opening of this chapter, it didn't stop the cover-ups or misrepresentations of the result of studies on their silicone gel breast implants.

Selection Given that individuals are at different stages of moral development and possess different personal value systems and personalities, an organization's employee selection process—interviews, tests, background checks, and the like—should be used to weed out ethically undesirable applicants. This is no easy task. Even under the best of circumstances, individuals with questionable standards of right and wrong will be hired. That is to be expected and needn't be a problem if other controls are imposed. But the selection process should be viewed as an opportunity to learn about an individual's level of moral development, personal values, ego strength, and locus of control.[46]

Codes of Ethics and Decision Rules We have already seen how ambiguity about what is ethical can be a problem for employees. Codes of ethics are an increasingly popular response for reducing that ambiguity.[47] For instance, nearly 90 percent of Fortune 1000 companies have a stated code of ethics.[48]

code of ethics
A formal statement of an organization's primary values and the ethical rules it expects its employees to follow.

A **code of ethics** is a formal document that states an organization's primary values and the ethical rules it expects its employees to follow. It has been suggested that codes should be specific enough to show employees the spirit in which they're supposed to do things, yet loose enough to allow for freedom of judgment.[49] These suggestions seem to have been applied at McDonnell Douglas, as shown in Figure 5–5.

FIGURE 5–5
McDonnell Douglas' Code of Ethics

Source: Courtesy of McDonnell Douglas Corporation.

MCDONNELL DOUGLAS
Code of Ethics

Integrity and ethics exist in the individual or they do not exist at all. They must be upheld by individuals or they are not upheld at all. In order for integrity and ethics to be characteristics of McDonnell Douglas, we who make up the corporation must strive to be:

- Honest and trustworthy in all our relationships.
- Reliable in carrying out assignments and responsibilities.
- Truthful and accurate in what we say and write.
- Cooperative and constructive in all work undertaken.
- Fair and considerate in our treatment of fellow employees, customers, and all other persons.
- Law abiding in all our activities.
- Committed to accomplishing all tasks in a superior way.
- Economical in utilizing company resources.
- Dedicated in service to our company and to improvement of the quality of life in the world in which we live.

Integrity and high standards of ethics require hard work, courage, and difficult choices. Consultation among employees, top management, and the Board of Directors will sometimes be necessary to determine a proper course of action. Integrity and ethics may sometimes require us to forego business opportunities. In the long run, however, we will be better served by doing what is right than what is expedient.

Jack S. Llewellyn, President and CEO of Ocean Spray, believes that the CEO has to be the model for ethical standards. "It's like the Marine Corps: The leader has to be able to do everything the rest of the troops do, and he has to be able to do it better. I don't think written policy statements are worth anything. Managers will treat customers and workers fairly if the CEO does."

What do most codes of ethics look like? A survey of 83 codes of business ethics—including those of such varied firms as Exxon, Sara Lee, DuPont, Bank of Boston, and Wisconsin Electric Power—found that their content tended to fall into three clusters: (1) Be a dependable organizational citizen, (2) do not do anything unlawful or improper that will harm the organization, and (3) be good to customers.[50] Table 5–4 lists the variables included in each of these clusters in order of their frequency of mention. However, another study of 202 Fortune 500 corporations suggests that many codes of ethics are not as effective as they might be because they omit important issues.[51] Seventy-five percent, for example, fail to address personal character matters, product safety, product quality, environmental affairs, or civic and community affairs. In contrast, more than three-quarters mentioned issues such as relations with the U.S. government, customer/supplier relations, political contributions, and conflicts of interest. Authors of this study concluded that "codes are really dealing with infractions against the corporation, rather than illegalities on behalf of the corporation."[52] That is, codes tend to give most attention to areas of illegal or unethical conduct that are likely to decrease a company's profits.[53]

In isolation, ethical codes are not likely to be much more than public relations statements. Their effectiveness depends heavily on whether management supports them and how employees who break the codes are treated. When management considers them to be important, regularly reaffirms their content, and publicly reprimands rule breakers, codes can supply a strong foundation for an effective ethics program.

Another approach that uses formal written statements to guide behavior has been

TABLE 5–4 Clusters of Variables Found in 83 Corporate Codes of Business Ethics

Cluster 1. Be a Dependable Organizational Citizen.

1. Comply with safety, health, and security regulations.
2. Demonstrate courtesy, respect, honesty, and fairness.
3. Illegal drugs and alcohol at work are prohibited.
4. Manage personal finances well.
5. Exhibit good attendance and punctuality.
6. Follow directives of supervisors.
7. Do not use abusive language.
8. Dress in businesslike attire.
9. Firearms at work are prohibited.

Cluster 2. Do Not Do Anything Unlawful or Improper That Will Harm the Organization.

1. Conduct business in compliance with all laws.
2. Payments for unlawful purposes are prohibited.
3. Bribes are prohibited.
4. Avoid outside activities that impair duties.
5. Maintain confidentiality of records.
6. Comply with all antitrust and trade regulations.
7. Comply with accounting rules and controls.
8. Do not use company property for personal benefit.
9. Employees are personally accountable for company funds.
10. Do not propagate false or misleading information.
11. Make decisions without regard for personal gain.

Cluster 3. Be Good to Customers.

1. Convey true claims in product advertisements.
2. Perform assigned duties to the best of your ability.
3. Provide products and services of the highest quality.

Source: Fred R. David, "An Empirical Study of Codes of Business Ethics: A Strategic Perspective." Paper presented at the 48th Annual Academy of Management Conference, Anaheim, California; August 1988.

suggested by Laura Nash.[54] She proposes 12 questions that act as decision rules to guide managers in handling ethical dimensions in decision making. These questions are listed in Table 5–5.

Top Management's Leadership Codes of ethics require a commitment from top management. Why? Because it's the top managers who set the cultural tone. They are role models in terms of both words and actions—though what they do is probably more important than what they say. If top managers, for example, use company resources for their personal use, inflate their expense accounts, give favored treatment to friends, or conduct similar practices, they imply that such behavior is acceptable for all employees.

Top management also sets the cultural tone by its reward and punishment practices. The choice of who and what are rewarded with pay increases and promotions sends a strong message to employees. The promotion of a manager for achieving impressive results in questionable ways indicates to everyone that those questionable ways are acceptable. When it uncovers wrongdoing, management must not only

TABLE 5–5 Twelve Questions for Examining the Ethics of a Business Decision

1. Have you defined the problem accurately?
2. How would you define the problem if you stood on the other side of the fence?
3. How did this situation occur in the first place?
4. To whom and to what do you give your loyalty as a person and as a member of the corporation?
5. What is your intention in making this decision?
6. How does this intention compare with the probable results?
7. Whom could your decision or action injure?
8. Can you discuss the problem with the affected parties before you make the decision?
9. Are you confident that your position will be as valid over a long period of time as it seems now?
10. Could you disclose without qualm your decision or action to your boss, your chief executive officer, the board of directors, your family, society as a whole?
11. What is the symbolic potential of your action if understood? If misunderstood?
12. Under what conditions would you allow exceptions to your stand?

Source: Reprinted by permission of *Harvard Business Review*. An exhibit from "Ethics Without the Sermon" by Laura L. Nash, November–December 1981, p. 81. Copyright © 1981 by the President and Fellows of Harvard College; all rights reserved.

punish the wrongdoer but publicize the fact and make the outcome visible for all to see. This sends another message: "Doing wrong has a price, and it's *not* in your best interest to act unethically!"

Job Goals Employees should have tangible and realistic goals. Explicit goals can create ethical problems if they make unrealistic demands on employees. Under the stress of unrealistic goals, otherwise ethical employees will often take the attitude that "anything goes." On the other hand, when goals are clear and realistic, they reduce ambiguity for employees and motivate rather than punish.

Ethics Training More and more organizations are setting up seminars, workshops, and similar training programs to try to improve ethical behaviors. Recent estimates indicate that 44 percent of companies provide some ethics training.[55] But these training programs are not without controversy. The primary debate surrounds whether you can actually teach ethics. Critics, for instance, stress that the effort is pointless since people establish their individual value systems when they are very young.[56] Proponents, on the other hand, note that several studies have found that values can be learned after early childhood.[57] In addition, they take heart from evidence that shows that teaching ethical problem solving can make an actual difference in ethical behavior;[58] that training has increased individuals' level of moral development;[59] and that, if it does nothing else, ethics training increases awareness of ethical issues in business.[60]

How do you teach ethics? Let's examine how it's done at Citicorp. There, as part of the company's comprehensive corporate-ethics training program, managers participate in a game that allows them to practice their understanding of the company's ethical standards.[61] Players move markers around a game board when they correctly answer multiple-choice questions presented on cards. Each card poses an ethical dilemma a bank employee might encounter. As the game progresses, players are "promoted" from entry-level employee to supervisor and eventually to senior manager.

As an example, one question asks: "After successfully completing a complex deal for a Japanese client, he presents you with a vase to express his appreciation. It's an expensive item, and accepting a gift of such value is clearly against Citicorp policy. Yet returning it would insult your client." Would you: (a) return the vase to the client and explain diplomatically that it's against Citicorp policy to accept gifts from clients; (b) accept the gift because you can't risk insulting an important client; (c) accept the gift on behalf of Citicorp, log it with premises management as a furnishing, and display it in a public area of the office; (d) accept the gift and use it as an award for an employee who displays service excellence? (Citicorp, by the way, likes answer "c.") Another question asks: "What if the manager of a competing bank calls to suggest colluding on interest rates?" If the player picks "ask to meet him and discuss it further," that player is "fired for cause" and is out of the game!

Ethical training sessions can provide a number of benefits.[62] They reinforce the organization's standards of conduct. They're a reminder that top management wants participants to consider ethical issues in their decisions. They clarify what practices are and are not permissible. Finally, when managers discuss common concerns among themselves, they become reassured that they aren't alone in facing ethical dilemmas. This can strengthen their confidence when they have to take unpopular but ethically correct stances.

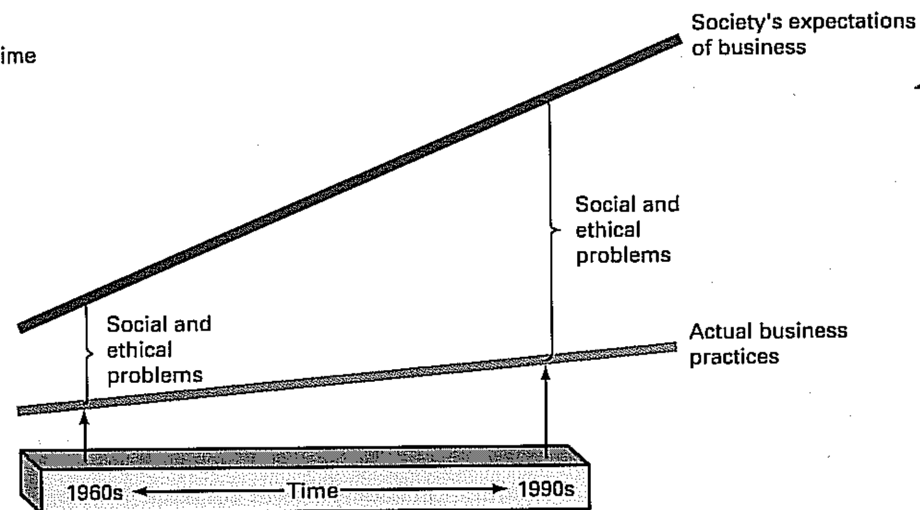
Comprehensive Performance Appraisal When performance appraisals focus only on economic outcomes, ends will begin to justify means. If an organization wants its managers to uphold high ethical standards, it *must* include this dimension in its appraisal process. For example, a manager's annual review might include a point-by-point evaluation of how his or her decisions stacked up against the organization's code of ethics as well as on the more traditional economic criteria. Needless to say, if the manager looks good on the economic criteria but scores poorly on ethical conduct, appropriate penalties need to be enacted.

Independent Social Audits An important deterrent of unethical behavior is fear of being caught. Independent audits, which evaluate decisions and management practices in terms of the organization's code of ethics, increase the probability of detection. These audits can be routine evaluations, performed on a regular basis as are financial audits, or they can occur at random, with no prior announcement. An effective ethical program should probably include both. To maintain integrity, the auditors should be responsible to the organization's board of directors, and present their findings directly to the board. This not only gives the auditors clout but lessens the opportunity for retaliation from those being audited.

Formal Protective Mechanisms Our last recommendation is for organizations to provide formal mechanisms so that employees who have ethical dilemmas can do something about them without fear of reprimand.

An organization might, for instance, designate ethical advisors. When employees face a dilemma, they could go to an advisor for guidance. The ethical advisor's role would first be as a sounding board, a channel to let employees openly verbalize their ethical problem, the problem's cause, and their own options. Then, after the options are clear, the advisor might take the role of an advocate who promotes the "right" alternatives. The organization might also create a special appeals process that employees could use without risk to themselves to raise ethical questions or blow the whistle on violators.

FIGURE 5–6
Social Responsibility and Ethics Over Time



Source: Reprinted with permission of Macmillan Publishing Company from *Social Responsibility of Management* by Archie B. Carroll. (New York: Macmillan Publishing Company, 1984), p. 14.

A Final Thought

If you picked up a twenty-year-old management text, it's almost certain that you would not find a chapter on social responsibility and ethics. If you even found the terms in the text, they wouldn't receive more than a paragraph of attention. What has happened to bring about this evolution?

One line of thinking is that the recent focus on these topics is a response to a *decline* in business's willingness to accept its societal responsibilities and in the ethical standards of managers. For instance, a Gallup poll reported that 65 percent of Americans thought that the overall level of ethics in society declined between the mid-1970s and mid-1980s.[63] The widely publicized ethics scandals that rocked Wall Street in the late 1980s certainly didn't help that perception. However, experts on the role of business in society provide another explanation.[64] They contend that today's managers are *more* socially conscious and ethical than their counterparts of a generation ago. What has happened, as illustrated in Figure 5–6, is that the demands on business and the expectations of what is considered "proper conduct" have risen faster than the ability of business to raise its standards.

Society's expectations of business have changed. Cornelius Vanderbilt's famous phrase "the public be damned" was accepted by many in the 1890s. It certainly is not acceptable in the 1990s. It was acceptable for Cleveland steel plants to pollute Lake Erie in the 1950s, but it is not today.

This observation has implications for managers. Since society's expectations of its institutions are regularly undergoing change, managers must continually monitor these expectations. What is ethically acceptable today may be a poor guide for the future.

Summary

This summary is organized by the chapter-opening learning objectives found on page 117.

1. According to the classical view, business's social responsibility is only to maximize financial returns for stockholders. The opposing socioeconomic view holds that business has a responsibility to the larger society.
2. The arguments for business being socially responsible include public expectations, long-run profits, ethical obligation, public image, a better environment, fewer government regulations, balancing of responsibility and power, stockholder interests, possession of resources, and the superiority of prevention over cures. The arguments against hold that social responsibility violates the profit-maximization objective, dilutes the organization's purpose, costs too much, gives business too much power, requires skills that business doesn't have, lacks accountability, and lacks wide public support.
3. Social responsibility refers to business's pursuit of long-term goals that are good for society. Social responsiveness refers to the capacity of a firm to respond to social pressures. The former requires business to determine what is right or wrong and thus seek fundamental ethical truths, while the latter is guided by social norms.
4. Most research studies show a positive relationship between corporate social involvement and economic performance. The evidence does *not* find that acting in a socially responsible way significantly reduces a corporation's long-term economic performance.
5. A stakeholder is any constituency in an organization's environment that is affected by that organization's decisions and policies. By focusing on the organization's stakeholders and their expectations of the organization, management is less likely to ignore its responsibilities to critical constituencies.
6. Ethics refers to rules or principles that define right and wrong conduct.
7. The utilitarian view makes decisions based on their outcomes or consequences. The rights view seeks to respect and protect basic rights of individuals. The theory of justice view seeks to impose and enforce rules fairly and impartially.
8. Whether a manager acts ethically or unethically is the result of a complex interaction between the manager's stage of moral development, his or her individual characteristics, the organization's structural design, the organization's culture, and the intensity of the ethical issue.
9. There are three levels of moral development, each comprised of two stages. The first two stages are influenced exclusively by an individual's personal interests. Stages 3 and 4 are influenced by the expectations of others. Stages 5 and 6 are influenced by personal ethical principles of what is right.
10. A comprehensive ethical program would include selection to weed out ethically undesirable applicants, a code of ethics and decision rules, a commitment by top management, clear and realistic job goals, ethics training, comprehensive performance appraisals, independent social audits, and formal protective mechanisms.

Review Questions

1. Why is the social responsibility of business receiving so much more attention today than it did in the 1940s or 1950s?
2. According to the socioeconomic view of social responsibility, what are the flaws in the classical view?
3. Contrast *social responsibility* and *social responsiveness*. Which is more theoretical? Why?
4. What is *cause-related marketing?* Is it socially responsible in the classical view?
5. Which of the three views on ethics is most popular among businesspeople? Why?
6. What conditions are relevant in determining the degree of intensity a person is likely to hold on an ethical issue?
7. What behaviors are most likely to be mentioned as prohibited by an organization's code of ethics? Which are most likely not to be mentioned?