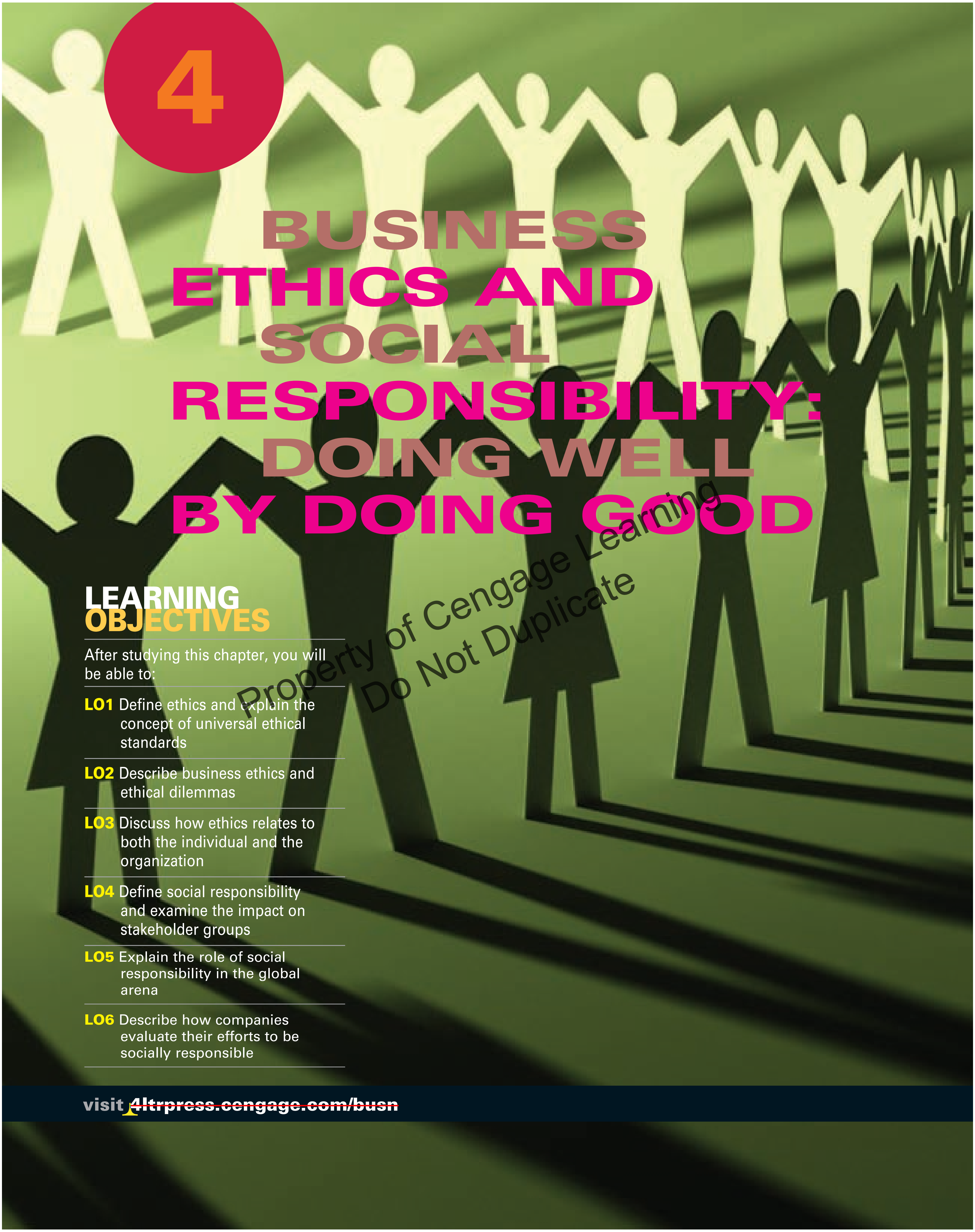

4

BUSINESS ETHICS AND SOCIAL RESPONSIBILITY: DOING WELL BY DOING GOOD

LEARNING OBJECTIVES

After studying this chapter, you will be able to:

LO1 Define ethics and explain the concept of universal ethical standards

LO2 Describe business ethics and ethical dilemmas

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

LO4 Define social responsibility and examine the impact on stakeholder groups

LO5 Explain the role of social responsibility in the global arena

LO6 Describe how companies evaluate their efforts to be socially responsible

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> **"Your moral compass counts far more than any bank balance, any resume, and any diploma."**
>
> *Elizabeth Dole, U.S. Senator*

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

LO1 Ethics and Social Responsibility: A Close Relationship

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

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

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

Defining Ethics: Murkier Than You'd Think

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

A given country's legal system provides a solid starting point for examining ethical standards. The function of laws in the United States (and elsewhere) is to establish and enforce ethical norms that apply to everyone within our society. Laws provide basic standards of behavior. But truly ethical behavior goes beyond the basics. In other words, your actions can be completely legal, yet still unethical. But since the legal system is far from perfect, in rare instances your actions can be illegal, yet still ethical. Exhibit 4.1 shows some examples of how business conduct can fall within legal and ethical dimensions. Clearly, legal and ethical actions should be your goal. Legality should be the floor—not the ceiling—for how to behave in business and elsewhere.

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

EXHIBIT 4.1 Legal – Ethical Matrix

Legal and Unethical	Legal and Ethical
Promoting R-rated movies to young teens	Producing high-quality products
Producing products that you know will break before their time	Rewarding integrity
	Leading by example
Paying non-living wages to workers in developing countries	Treating employees fairly
	Contributing to the community
	Respecting the environment
Illegal and Unethical	**Illegal and Ethical**
Embezzling money	Providing rock-bottom prices *only* to distributors in underserved areas
Engaging in sexual harassment	Collaborating with other medical clinics to guarantee low prices in low-income counties (collusion)
Practicing collusion with competitors	
Encouraging fraudulent accounting	

universal ethical standards Ethical norms that apply to all people across a broad spectrum of situations.

business ethics The application of right and wrong, good and bad in a business setting.

ethical dilemma A decision that involves a conflict of values; every potential course of action has some significant negative consequences.

Universal Ethical Standards: A Reasonable Goal or Wishful Thinking?

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

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

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

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LO2 Business Ethics: Not an Oxymoron

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

- You've just done a great job on a recent project at your company. Your boss has been very vocal about acknowledging your work and the increased revenue that resulted from it. Privately, she said that you clearly earned a bonus of at least 10%, but due to company politics, she was unable to secure the bonus for you. She also implied that if you were to submit inflated expense reports for the next few months, she would look the other way, and you could pocket the extra cash as well-deserved compensation for your contributions.
- One of the engineers on your staff has an excellent job offer from another company and asks your advice on whether or not to accept the position. You need him to complete a project

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EXHIBIT 4.2 Universal Ethical Standards[1]

Trustworthiness	**Be honest.** **Don't deceive, cheat, or steal.** **Do what you say you'll do.**
Respect	**Treat others how you'd like to be treated.** **Be considerate.** **Be tolerant of differences.**
Responsibility	**Persevere.** **Be self-controlled and self-disciplined.** **Be accountable for your choices.**
Fairness	**Provide equal opportunity.** **Be open-minded.** **Don't take advantage of others.**
Caring	**Be kind.** **Be compassionate.** **Express gratitude.**
Citizenship	**Contribute to the community.** **Protect the environment.** **Cooperate whenever feasible.**

that is crucial to your company (and to your own career). You also have been told—in strictest confidence by senior management—that when this project is complete, the company will lay off all internal engineers. If you advise him to stay, he would lose the opportunity (and end up without a job), but if you advise him to go, you would violate the company's trust (and jeopardize your own career).

LO3 Ethics: Multiple Touchpoints

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

Ethics and the Individual: The Power of One

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

- Do you fully understand each dimension of the problem?
- Who would benefit? Who would suffer?

Bad News for Business?

In 2008 the Josephson Institute Center for Youth Ethics produced a Report Card on the Ethics of American Youth, based on a survey of nearly 30,000 students in high schools across the United States. The results suggest that students are disturbingly willing to lie, cheat, and steal, despite a sky-high opinion of their own personal character. Some highlights (or perhaps we should call them lowlights):

- 83% admitted that they lied to a parent within the past 12 months about something significant.
- 64% admitted that they cheated on a test at school within the past 12 months (38% admitted doing so two or more times).
- 36% admitted that they used the Internet to plagiarize an assignment within the past 12 months.
- 62% admitted that they copied another's homework two or more times within the past 12 months.
- 19% admitted that they stole something from a friend within the past 12 months.
- 30% admitted that they stole something from a store within the past 12 months.

Sadly, the actual rates of bad behavior are probably understated, since 26% admitted that they lied on one or two questions, and experts agree that dishonesty on surveys usually reflects an attempt to conceal misconduct.

Despite rampant lying, cheating, and stealing, 98% agreed that it's important to be a person of good character, and 77% would rate their own character higher than that of their peers. Furthermore, 93% said they were satisfied with their personal character.

Projecting today's high school attitudes on tomorrow's business world suggests that now is the time for smart companies to clarify their standards and establish safeguards to head-off costly ethical meltdowns in their future workforce.[2]

- Are the alternative solutions legal? Are they fair?
- Does your decision make you comfortable at a "gut feel" level?
- Could you defend your decision on the nightly TV news?
- Have you considered and reconsidered your responses to each question?

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

Ethics and the Organization: It Takes a Village

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

- High Flyers: When the CEOs of the Big Three automakers—hovering on the edge of bankruptcy—went to Washington to request a $25 billion bailout package, they flew in three separate corporate jets at an estimated cost of $20,000 per round-trip flight. All three were operating in line with official corporate travel policies, but it just didn't look right. One lawmaker pointedly asked, "Couldn't you all have downgraded to first class or jet-pooled or something to get here? It would have at least sent a message that you do get it." Not surprisingly, the execs left empty-handed.[3]
- Retirement Perks: When Jack Welch retired from his post at CEO of General Electric, the Board awarded him a generous financial package, and an eye-popping collection of perks. His perks ranged from use of an $80,000 per month apartment, to country club fees, to corporate jet privileges. These perks did not represent an ethical breach—Welch negotiated them in good faith—but when the list surfaced in the press a year after his retirement, he voluntarily gave up his perks to mitigate a public relations problem that could tarnish his reputation as a tough, ethical, and highly successful CEO.[4]
- Gross Excess: In the mid-1990s, Disney CEO Michael Eisner hired his friend Michael Ovitz as Disney's president. Fourteen months later, Disney fired Ovitz for incompetence, and he walked away with a $140 million settlement. Disgruntled stockholders sued the Disney Board for mismanagement, which has led to the release of Ovitz's Disney expense account documents. In 14 months he spent $4.8 million (that's about $80,000 per week!). Specifics included $54,330 for Lakers tickets, a $946 gun for Robert Zemeckis, and $319 for breakfast. Was he stealing? *No.* Was he unethical? You decide.[5] How do you feel about the business decisions described in Exhibit 4.3?

Creating and Maintaining an Ethical Organization

Research from th[illegible]nter (ERC) suggests that org[illegible] more influence than any ot[illegible]ical conduct of individual emp[illegible]he ERC, key elements of a str[illegible]splays of ethics-related act[illegible] organization and accountabilit[illegible]act of these elements can be[illegible] example, the following research results:

See Word doc for three new ERC research bullet points and new end note source.

- ~~Where top management displays certain ethics-related actions, employees are 50 percentage points less likely to observe misconduct.~~
- ~~Ethics-related actions of coworkers can increase employee willingness to report misconduct by as much as 10 percentage points.~~
- ~~When employees perceive that others are held accountable for their actions, their overall satisfaction increases by 32 percentage points.~~[6]

A strong organizational culture works in tandem with formal ethics programs to create and maintain

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

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

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

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

~~***Martha Stewart*** **In 2004, Martha Stewart, who is worth over $1 billion, was convicted of obstructing justice and lying to investigators about a suspiciously well-timed stock sale that involved a small profit of $40,000.**~~

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

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

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

Specific codes of ethics vary greatly among organizations. Perhaps the best-known code is the Johnson & Johnson Credo, which has guided the company profitably—with a soaring reputation—through a number of crises that would have sunk lesser organizations. One of the striking elements of the Credo is the firm focus on fairness. It carefully refrains from overpromising financial rewards, committing instead to a "fair return" for stockholders.

To bring a code of ethics to life, experts advocate a forceful, integrated approach to ethics that virtually always includes the following steps:

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

LO4 Defining Social Responsibility: Making the World a Better Place

Social responsibility is the obligation of a business to contribute to society. Similar to ethics, the broad definition is clear, but specific implementation can be

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

whistleblowers
Employees who report their employer's illegal or unethical behavior to either the authorities or the media.

social responsibility
The obligation of a business to contribute to society.

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

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

The Stakeholder Approach: Responsibility to Whom?

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

> **Nearly 80% of Americans consider corporate citizenship when making investment and purchasing decisions.**
>
> *Community Wealth Ventures/Cone Research*

Responsibility to Employees: Creating Jobs That Work Jobs alone aren't enough. The starting point for socially responsible employers is to meet legal standards, and the requirements are significant. How you would judge the social responsibility of the firms listed in Exhibit 4.5? Employers must comply with laws that include equal opportunity, workplace safety, minimum wage and overtime requirements, protection from sexual harassment, and family and medical unpaid leaves. We will discuss these legal requirements (and others) in Chapter 16 on Human Resource Management.

But socially responsible employers go far beyond the law. They create a workplace environment that respects the dignity and value of each employee. They ensure that hard work, commitment, and talent pay off. They move beyond minimal safety requirements to establish proactive protections, such as ergonomically

Capitalism with a Conscience

Since its inception, capitalism has fueled the creation of great wealth. But the gains in wealth, healthcare, education, and technology have not been evenly spread—far from it. In fact, about half of the world's population lives on less than $2 per day.

Moved by the magnitude of the need, software tycoon Bill Gates called for a new approach to economics: "creative capitalism." He challenged leaders at the 2008 World Economic Forum to work with him to harness market forces against the devastating problems of the needy. But he doesn't advocate giving up profits. For creative capitalism to succeed, he believes that the profit incentive must be tightly fused to the goal of "improving lives for those who don't fully benefit from market forces."

Nobel Peace prize winner Muhammad Yunus also recognizes the power of business to solve pressing societal issues. Yunus, who built a profitable banking network to offer collateral-free cr"edit to poor entrepreneurs, has pioneered the idea of "Social Business." He advocates using the creative vibrancy of business to tackle problems ranging from poverty to pollution. To make this happen, he calls for entrepreneurs to set up enterprises that generate personal gain, but also pursue specific social goals.

Can capitalism with a conscience really work on a broad-scale basis? Early results suggest that it can. Gary Hirshberg, co-founder of Stonyfield Farm Yogurt, explains by telling his story. As a young environmentalist, Hirshberg was convinced that business was "the source of all things evil." But recognizing the power of enterprise, he eventually launched Stonyfield Farm, an attempt to harness commerce for the benefit of the environment. He and his partner challenged themselves to answer a basic question: "Is it possible to run a commercial enterprise that doesn't hurt the planet—and still be highly profitable?" Twenty years later he answers from experience: absolutely![7]

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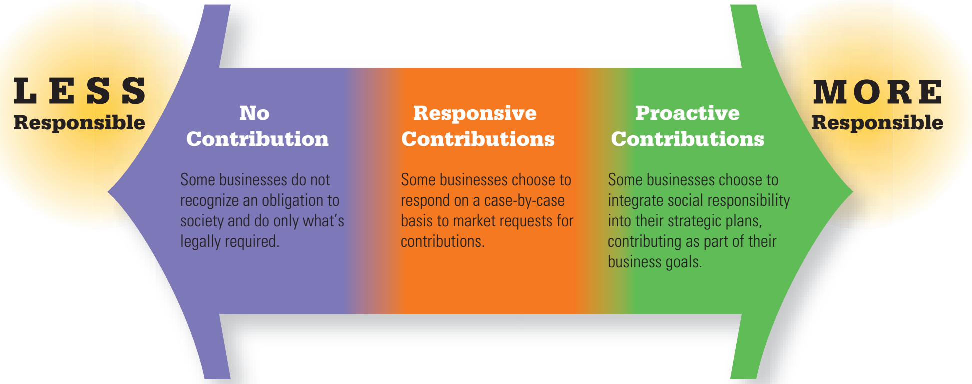
consumerism A social movement that focuses on four key consumer rights: (1) the right to be safe, (2) the right to be informed, (3) the right to choose, and (4) the right to be heard.

EXHIBIT 4.4 The Spectrum of Social Responsibility



correct chairs and computer screens that reduce eye strain. And the best employers respond to the ongoing employee search for a balance between work and personal life. With an increasing number of workers facing challenges, such as raising kids and caring for elderly parents, responsible companies are stepping in with programs such as on-site day care, company-sponsored day camp, and referral services for elder care.

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Responsibility to Customers: Value, Honesty, and Communication A core responsibility of business is to deliver consumer value by providing quality products at fair prices. Honesty and communication are critical components of this equation. **Consumerism**—a widely accepted social movement—suggests that consumer rights

EXHIBIT 4.5 Social Responsibility at Work

How would you judge the actions of these firms?	
The Clorox Company In early 2008, Clorox introduced a line of "99% natural" cleaning products called Green Works. This is the first such effort from a major consumer products company, and also the first time that the Sierra Club has endorsed a product line by allowing the use of its logo on the labels. In return, Clorox makes an annual contribution to the Sierra Club, the amount based on total Green Works sales.	***Enron/Arthur Andersen (now defunct)*** Enron, once hailed as a shining example of corporate excellence, collapsed in late 2001 due to massive accounting fraud, which bilked employees and other small investors out of millions of dollars. Arthur Andersen, hired to audit Enron's accountings, participated in the scandal by masking the issues and shredding documents containing potential evidence.
MTV Tapping the potential of their fans, MTV has drawn millions of young people to the polls through their Choose or Lose campaign during the last four presidential elections. Their tactics include MTV specials, on-air promotion, concert tours, and voter registration drives. Due in large part to their efforts, a record number of young people flooded the polls in the 2008 presidential election.	***Bank of America*** After receiving $45 billion in taxpayer bailout funds, Bank of America sponsored a five-day carnival-like event outside the 2009 Super Bowl stadium called the NFL Experience. The high-profile attraction included 850,000 square feet of sports games, plus marketing solicitations for football-themed B of A banking products. The bank defended the event as an effective growth strategy, while critics blasted it as an abuse of taxpayer dollars.
Kraft As obesity among kids spirals out of control, Kraft has taken a brave stand: a pledge to stop advertising unhealthy—yet highly profitable—foods to young children. Kraft also plans to eliminate in-school marketing and drop some unhealthy snacks from school vending machines. As the king of the food business, Kraft has chosen what's right for kids over what's right for its own short-term profits.	~~***Urban Outfitters***~~ ~~In its ongoing quest for edginess, Urban Outfitters has marketed a number of controversial products. In 2003, for instance, Urban Outfitters introduced "Ghettopoly." Sample card: "You got yo whole neighborhood addicted to crack. Collect $50." They soon pulled the game off the shelves due to complaints from outraged customers and community members.~~

planned obsolescence The strategy of deliberately designing products to fail in order to shorten the time between purchases.

should be the starting point. In the early 1960s, President Kennedy defined these rights, which most businesses respect in response to both consumer expectations and legal requirements:

- The Right to Be Safe: Businesses are legally responsible for injuries and damages caused by their products—even if they have no reason to suspect that their products might cause harm. This makes it easy for consumers to file suits. In some cases, the drive to avert lawsuits has led to absurdities such as the warning on some coffee cups: "Caution! Hot coffee is hot!" (No kidding…)
- The Right to Be Informed: The law requires firms in a range of industries—from mutual funds, to groceries, to pharmaceuticals—to provide the public with extensive information. The Food and Drug Administration, for instance, mandates that most grocery foods feature a very specific "Nutrition Facts" label. Beyond legal requirements, many firms use the Web to provide a wealth of extra information about their products. KFC, for example, offers an interactive Nutrition Calculator that works with all of their menu items (and it's fun to use, too).
- The Right to Choose: Freedom of choice is a fundamental element of the capitalist U.S. economy. Our economic system works largely because consumers freely choose to purchase the products that best meet their needs. As businesses compete, consumer value increases. Socially responsible firms support consumer choice by following the laws that prevent anticompetitive behavior such as predatory pricing, collusion, and monopolies.
- The Right to Be Heard: Socially responsible companies make it easy for consumers to express legitimate complaints. They also develop highly trained customer service people to respond to complaints. In fact, smart businesses view customer complaints as an opportunity to create better products and stronger relationships. Statistics suggest that 1 in 50 dissatisfied customers takes the time to complain. The other 49 quietly switch brands. By soliciting feedback, you're not only being responsible, but also building your business.[9]

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

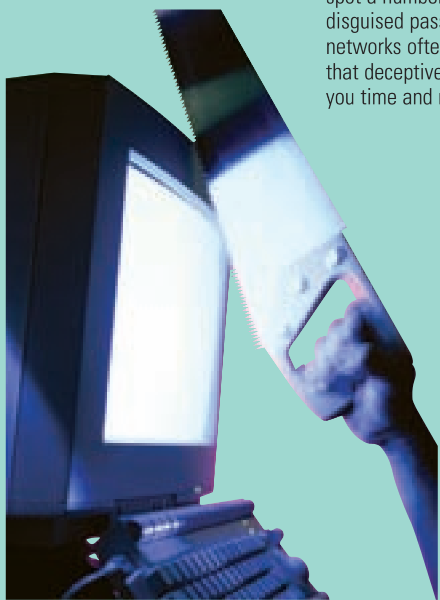
TechNotes

Virtual Intruder Alert!

As wireless networks become more mainstream, wireless intruders stalk closely behind them. In 2006 there were 242 million wireless subscribers in the United States alone—up from 213 million in 2005. That same year the number of mobile wireless devices with high-speed Internet increased more than 600%. Many wireless networks operate in homes, but businesses of every size are going wireless at a rapid pace. Vulnerability to hackers, viruses, and unwanted snooping increases with each new wireless network. Some examples:

- In mid-2008, 11 people were charged with hacking wireless systems to steal 41 million credit and debit card numbers from multiple retailers, including Boston Market, Barnes and Noble, Sports Authority, and Forever 21.
- In 2003, two young men hacked a Michigan Lowe's store through the airwaves. From a car in the parking lot, they hooked into the store's wireless network of bar code readers, capturing credit card information as shoppers checked out. Today, the thieves wouldn't even need to be in the parking lot – wireless cybercriminals use telescope antennas to attack their targets from up to 45 miles away.
- Demonstrating overzealous ambition, salespeople have been known to hack into business networks from company lobbies, scanning emails to get the inside scoop on how to tailor their pitches.
- *The Wall Street Journal* reports that IBM consultants tracked the source of a virus that shut down a company's network to a passing car that connected by accident and transmitted the bug.

How can you protect yourself and your business? The first step is encryption, which means sending your transmissions in code. But remote hacking often starts with face-to-face communication, which can be an easy starting point for intruders. Low-level IT workers and chatty support staff can unwittingly share too much information with potential hackers who don't fit the outdated computer nerd stereotype. And too many forgetful people post their passwords on or near their computers, assuming that no one will notice. (Take a quick stroll through almost any office, and you're likely to spot a number of not-so-cleverly disguised passwords.) Wireless networks often "feel" private, but that deceptive illusion can cost you time and money.[8]



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

- *Trapped!* Due to a huge snowstorm on Valentine's Day 2007, ten JetBlue planes were stranded on the tarmac at JFK's New York airport, trapping furious passengers—with no information, no power, and limited refreshments—for as much as eight hours. In the wake of the storm, JetBlue canceled more than 1,000 additional flights. JetBlue CEO David Neeleman responded with a profuse apology, reimbursing customers and establishing a customer bill of rights. The airline estimates that the total cost of the crisis was between \$20 and \$30 million. But in 2008, JetBlue won its fourth consecutive customer service award from J.D. Power and Associates, clear evidence that the apology worked to regain customer trust.[10]
- *Apple Angst:* Apple introduced the iPhone on June 29, 2007 to rave reviews and stellar sales, despite the \$599 price tag. But two months later, Apple dropped the price of the phone by \$200, in order to expand the user base yet further. Not surprisingly, early adopters were livid—why, they demanded, did Apple repay their trust and support by ripping them off? CEO Steve Jobs quickly apologized and offered every \$599 iPhone customer a \$100 Apple store credit. The response seemed to work. In 2008, Apple's ranking in the American Customer Satisfaction Index climbed 8%, a full 10 percentage points ahead of its nearest competitor in an industry where ratings in general are sinking.[11]

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

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

Responsibility to the Community: Business and the Greater Good Beyond increasing everyone's standard of living, businesses can contribute to society in two main ways: philanthropy and responsibility. **Corporate philanthropy** includes all business donations to nonprofit groups, including both money and products. The Giving USA Foundation reported that total corporate donations in 2007 exceeded \$15 billion, an increase of nearly 2% versus 2006, despite rising worries about the economy. But since corporate giving ties closely to corporate profits, philanthropy will likely decrease in 2008 and beyond. "As goes the economy, so goes corporate giving…only more so" says Patrick M. Rooney of the Center on Philanthropy at Indiana University.

AP IMAGES/JASON DECROW

Corporate philanthropy also includes donations of employee time; in other words, some companies pay their employees to spend time volunteering at nonprofits. Timberland, an outdoor clothing company, is a leader in corporate philanthropy, not only donating goods but also giving employees paid six-month sabbaticals to work for nonprofits.[12]

Some companies contribute to nonprofits through

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

corporate philanthropy All business donations to nonprofit groups, including money, products, and employee time.

cause-related marketing Marketing partnerships between businesses and nonprofit organizations, designed to spike sales for the company and raise money for the nonprofit.

corporate responsibility Business contributions to the community through the actions of the business itself rather than donations of money and time.

sustainable development Doing business to meet the needs of the current generation, without harming the ability of future generations to meet their needs.

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

cause-related mar involves a partners business and a no to spike sales for t and raise money f Unlike outright gift are not tax deduct pany, but they can the company's brands.

"Contrary to what one might expect, misconduct declines in turbulent economic times and rises when the pressure's off," Source: Ethics Resource Center

Corporate responsibility relates closely to philanthropy but focuses on the actions of the business itself rather than donations of money and time. The Home Depot, for instance, employs more Olympic hopefuls than any other U.S. company through its Olympic Job Opportunities Program. The firm offers athletes full-time pay and benefits for a flexible 20-hour workweek to accommodate demanding training and competition schedules. Taking a different approach to corporate responsibility, Cisco Systems has developed relationships with the different branches of the military to help make recruitment and hiring of disabled veterans a standard part of their hiring practices. Both of these policies ultimately benefit society as a whole.

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

The government sets minimum standards for environmental protection at the federal, state, and local levels. But a growing number of companies are going further, developing innovative strategies to build their business while protecting the environment. Many have embraced the idea of **sustainable development**: doing business to meet the needs of this generation without harming the ability of future generations to meet their needs. This means weaving environmentalism throughout the business decision-making process. Since sustainable

~~"What does it mean to be radically green?"~~

~~Sophie Vandebroek, Xerox Chief Technology Officer~~

velopment can mean significant long-term cost savings, the economic crisis may even push forward environmentally friendly programs—especially as government stimulus spending kicks in to fuel investment.

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

- "The company used to ship orange juice to its restaurants in ready-to-serve containers. Now it ships frozen concentrate, which reduces orange juice packaging by 75%—4 million pounds less garbage a year."
- "Soft drinks were shipped as syrup in cardboard containers. The local restaurants added the water and the fizz. Now the syrup is delivered by trucks that pump it directly into receiving tanks at the restaurants. No packaging is needed at all. Savings: 68 million pounds of cardboard per year."[13]

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

Taking an even broader perspective, some firms have started to measure their carbon footprint, with an eye towards reducing it. **Carbon footprint** refers to the amount of harmful greenhouse gases that a firm emits throughout its operations, both directly and indirectly. The ultimate goal is to become carbon neutral—either to emit zero harmful gasses, or to counteract the impact of emissions by removing a comparable amount from the atmosphere through projects such as planting trees. Dell computer became fully carbon neutral in mid-2008, fulfilling its quest to become "the greenest technology on the planet." More recently, PepsiCo calculated the carbon footprint for its Tropicana orange juice brand and was surprised to learn that about a third of its emissions came from applying fertilizer to the orange groves. According to the Conference Board, business leaders have begun to see their carbon footprint—both measurement and reduction—as a burgeoning opportunity.[14]

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Currently, the average U.S. office worker uses a sheet of paper every 12 minutes -- a ream per person every 2.5 working weeks -- and disposes of 100-200 lbs of paper every year. Source: Trees, Water, and People

~~Nearly two-thi~~
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~~38% of adu~~

~~Lemelson-MIT Invention Index~~

A growing number of companies use **green marketing** to promote their business. This means marketing environmental products and practices to gain a competitive edge. Patagonia, for example, markets outdoor clothing using 100% organic cotton and natural fibers such as hemp. But green marketing represents a tough challenge: while most people support the idea of green products, the vast majority won't sacrifice price, performance, or convenience to actually buy those products. Sometimes, however, green marketing can be quite consistent with profitability. The Toyota Prius hybrid car offers an interesting example. The Prius costs several thousand dollars more than a standard car, but as gas prices skyrocketed through the summer of 2008, consumers flooded the dealerships, snapping up Prius hybrids faster than Toyota could ship them. Yet when the economy dropped in late 2008, Toyota sales plummeted along with the rest of the industry, suggesting that the environment may be a fair weather priority for consumers.[15]

LO5 Ethics and Social Responsibility in the Global Arena: A House of Mirrors?

green marketing Developing and promoting environmentally sound products and practices to gain a competitive edge.

Globalization has made ethics and social responsibility even more complicated for workers at every level. Bribery and corruption are among the most challenging issues faced by companies and individuals that are involved in international business. Transparency International, a leading anticorruption organization, publishes a yearly index of "perceived corruption" across 146 countries. No country scores a completely clean 10 out of 10, and the United States scores a troubling 7.3. Not surprisingly, the world's poorest countries fall largely in the bottom half of the index, suggesting rampant corruption is part of their business culture.[16]

Corruption wouldn't be possible if companies didn't offer bribes, so Transparency International also researched the likelihood of firms from industrialized countries to pay bribes abroad. The 2008 results indicated that firms from export powers Russia, China, and Mexico rank among the worst, with India following close behind. U.S. corporations, forbidden to offer bribes since 1977 under the Foreign Corrupt Practices Act, show a disturbing inclination to flout the law. The United States scored at ~~8.1~~ out of a possible 10, falling below many Western European countries.[17]

These statistics raise some thought provoking questions:

PRNEWSFOTO/BLOOMINGDALE'S

~~Earth Day Run Amok?~~

~~Founded as a grass roots event in 1970, Earth Day may spark visions of tie dye, peace signs, and bell bottomed pants, but business boardrooms might be a better image for Earth Day in the early 21st century. By 2008, Earth Day had become a commercial bonanza, attracting marketers of every stripe. For instance, Advertising Age reports that *Newsweek* subscribers could actually fashion the cover of the April 14 issue into an envelope to send plastic bags to Target in exchange for a reusable tote bag. Macy's offered 10-20% discounts off most merchandise in return for a $5 donation to the National Park Foundation. PacSun exhorted customers to "show you care with what you wear," by buying organic cotton tee shirts and recycled boardshorts. And major oil companies from Chevron to Exxon Mobile sponsored events across the country. Tens of millions of dollars supported these marketing programs.~~

~~Some environmentalists are horrified by the irony of most of the marketing messages: Consume more to save the planet. They worry that the weak links to sustainability will confuse and ultimately alienate the general public. But others are delighted by the attention and convinced that these marketing campaigns raise awareness of critical environmental issues, which will ultimately lead to action.~~

~~What do you think? Are these green marketing efforts genuine? From a long term perspective, will they benefit or harm the sustainability movement? How do you as a consumer respond to these messages?[18]~~

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

Other challenging issues revolve around business responsibility to workers abroad. At minimum, businesses should pay a living wage for reasonable hours in a safe working environment. But exactly what this means is less clear-cut. Does a living wage mean enough to support an individual or a family? Does "support" mean enough to subsist day-to-day, or enough to live in modest comfort? Should American businesses mandate no child labor in countries where families depend on their children's wages to survive? Companies must address these questions individually, bringing together their own values with the laws of both the United States and their host countries.

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

WITHOUT A MAP... CHARTING AN ETHICAL COURSE

Choosing Between a Loaf of Bread and Packet of Shampoo

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

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

But Prahalad counters that many people at the bottom of the economic pyramid accept that some of the basics—running water, for instance—are not likely to ever come their way. Instead, they opt to improve their quality of life through affordable "luxuries," such as single-use sachets of fragrant shampoo. He argues that "It's absolutely possible to do very well while doing good." Furthermore, he suggests that corporate marketing may kick-start the poorest economies, triggering entrepreneurial activity and economic growth. Since globalization shows no signs of slowing, let's hope that he's right.[19]

AP IMAGES/DENIS POROY; © ARKO DATTA/REUTERS /LANDOV pay the children's tuition and provide books and uniforms." This creative solution allowed the suppliers to maintain their valuable contracts from Levi Strauss, while Levi Strauss upheld its values and improved the quality of life for its most vulnerable workers.[20]

Clearly, codes of conduct work best with monitoring, enforcement, and a commitment to finding solutions that work for all parties involved. Gap Inc. offers an encouraging example. In 1996, Gap published a rigorous Code of Vendor Conduct and required compliance from all of their vendors. Their 90 vendor-compliance officers strive to visit each of their 3,000 factories at least once a year. They have uncovered a troubling number of violations, proactively pulling contracts from serious violators and rejecting bids from suppliers who don't meet their standards.

Gap and Levi Strauss seem to be doing their part, but the world clearly needs universal standards and universal enforcement to ensure that the benefits of globalization don't come at the expense of the world's most vulnerable people.[21]

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

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

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

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

The Big Picture

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

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

WHAT ELSE? *RIP & REVIEW* CARDS IN THE BACK