2

THE GLOBAL ENVIRONMENT
Culture, Ethics, and Social Responsibility

LEARNING COMPETENCIES

After studying this chapter, you should be able to:

2.1 Explain how internal and external environmental factors affect the internal business environment.

2.2 Contrast the classification of businesses in the global village.

2.3 Define ethnocentrism.

2.4 Describe the three levels of organizational culture and their relationship to each other.

2.5 State the ethical viewpoints used to define ethics.

2.6 Explain how people justify unethical behavior.

2.7 Name three factors that influence behavior to be ethical or unethical.

2.8 Identify four guides to ethical behavior.

2.9 State three things organizations should do to manage ethics.

2.10 Characterize the three levels of social responsibility and explain its relationship with sustainability.

2.11 Discuss the latest trends and issues impacting ethics and social responsibility in management.

IDEAS ON MANAGEMENT AT UNILEVER

"Behaving with integrity, day in and day out, is a non-negotiable, and will help in creating a fairer and more principled world."[1]

Alan Jope, Unilever CEO

Ethical challenges abound for all companies, and British-Dutch company **Unilever** is no stranger to these issues. Unilever, one of the four largest consumer goods companies in the world, is a global business with a vast global reach. The company, operating in more than 190 countries through a network of 25 million retailers, owns more than 400 well-known brands that are used daily by 2.5 billion people around the world.[2] Unilever specializes in *Fast Moving Consumer Goods* (FMCG) and is active in a wide range of market segments. In food and refreshments, Unilever owns brands Lipton, Ben and Jerry's, Bertolli, Hellmann's, Knorr, Pure Leaf Tea, Klondike, Breyers, and Magnum ice cream, among many others. In beauty and personal care, Unilever owns brands Dove, Men's Dove, Baby Dove, Brut, Alberto Balsam, Tresemme, Axe, Lux, Pond's, Lever 2000, Noxema, Suave, VO5, and many more. In home care, Seventh Generation, Surf, Sunlight, Cif, and a variety of other brands belong to Unilever. The company's geographic presence includes a multitude of markets operating in varied cultures encompassing diverse ethical standards. Unilever characterizes itself as a *"global company with a global purpose."*[3]

Alan Jope, Unilever's CEO, is a company veteran with a reputation for values-driven leadership.[4] Appointed CEO in January 2019, Jope has been with Unilever since 1985. Jope's journey with Unilever has brought him through numerous divisions and geographic locations within the company, and he has held executive leadership roles serving markets in North America, China, northern Asia, Russia, Africa, and the Middle East.[5] His long tenure with Unilever, deep exposure to a wide range of markets and customer needs, and firsthand experience encountering business and operational challenges in diverse locations provide Jope an understanding of Unilever's broad corporate challenges and the issues its 149,000 employees face. Since assuming the CEO role, Jope has committed to continuing to advance Unilever's sustainability and social responsibility efforts, and he is a strong advocate for unifying the company under the banner of *Business Integrity*, a core tenet of the firm.[6]

As one of the first companies in the world to sign on to the United Nations Global Compact (UNGC), Unilever has committed to upholding the compact's principles on human rights, labor standards, environment protection and sustainability, and anticorruption practices in its everyday business operations. Each Unilever employee is called, day-to-day, to represent the company's high ethical standards, and this is an important aspect of the firm's culture. Unilever seeks to build work environments that underscore its four key values—*integrity, respect, responsibility*, and *pioneering*—to enable employees to speak out when situations arise that may create ethical compromises. Unilever also strives to positively influence and collaborate with its entire supply chain to implement ethical business practices. The company works with its supplier,

distributors, and other third-party vendors to improve human rights outcomes and eradicate bribery and corruption.[7] From Jope's perspective, this broad spread collaboration is necessary for Unilever's sustainability efforts, and it enables the company to better align with the laws and regulations across the dozens of countries it works in.

In 2010, Unilever introduced *The Compass*, the company's business strategy for sustainable growth that includes Unilever's Sustainable Living Plan. Under Jope's leadership, Unilever has integrated two separate sustainability and business strategies into one unified strategy, connecting the company's sustainability efforts with enhanced business performance.

According to Jope, Unilever has seen purposeful brands grow at roughly twice the rate of other brands in Unilever's portfolio, and the company is striving to increase the number of these brands in the Unilever portfolio, which is currently comprised of 60% purpose-led brands.[8]

The objective of *The Compass* was to double the company's revenue while slashing its carbon footprint by 50% by 2020. When Jope assumed the CEO position in 2019, he publicly stated his desire to advance the progress already achieved by *The Compass*,[9] and since then he has overseen the strengthening of the company's product portfolios and the launch of Unilever's *Climate Transition Action Plan*, an initiative designed to reduce greenhouse gas emissions across Unilever's supply chain to net zero by 2039, an initiative that received majority shareholder approval in a May 2021 vote.[10]

Unilever's efforts have not gone unnoticed. The company has received numerous awards, and in 2020 was named an industry leader in personal products in the S&P Dow Jones Sustainability Index (DJSI) 2020, across a range of environmental, social and governance (ESG) criteria.[11] Jope acknowledges that Unilever has not achieved all it hoped to by this time, but, in his words, the company is better for trying.

Answers to **IOM** questions are found throughout the chapter.

IOM 1: What is Unilever's mission?

IOM 2: Who is Unilever's top senior manager, what are the company's key resources, and what is the company's structure?

IOM 3: How might Unilever's presence in 190 countries challenge its abilities to identify the "external environment" of the firm? Who are the company's key stakeholders?

IOM 4: What type of culture does Unilever have?

IOM 5: What formal framework does Unilever turn to in order to develop ethical employees and managers?

Case created by Dr. Kelly Nyhoff, Carthage College, Kenosha, Wisconsin.
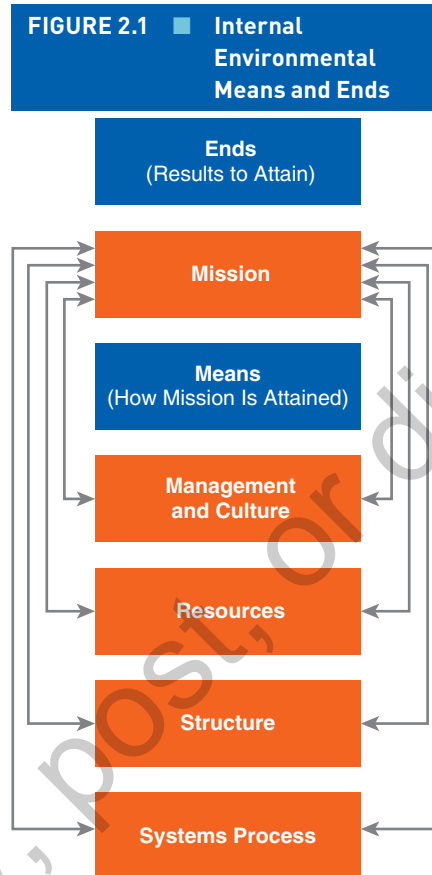
THE GLOBAL ENVIRONMENT

LEARNING COMPETENCIES

2.1 Explain how internal and external environmental factors affect the internal business environment.

Organizations conduct business using their internal resources, and how firms conduct business is affected by their external environment.[12] Thus, managers need to align the fit between their internal conditions and external environments by continually monitoring both environments.[13] In this section, we begin with the internal followed by the external global environment.

The Internal Environment

Organizations are groups of people working together for a common purpose. They are created to produce goods and/or services called products for customers using their resources. When we use the term

product, it can be a good, a service, or both. The organization's **internal environment** *includes the factors that affect its performance from within its boundaries.* They are called internal factors because they are within the organization's control, as opposed to external factors, which are outside the organization's control. The five internal environmental factors we'll talk about in this section are presented in Figure 2.1. These five factors must be coordinated effectively and efficiently.

FIGURE 2.1 ■ Internal Environmental Means and Ends

Ends (Results to Attain)

Mission

Means (How Mission Is Attained)

Management and Culture

Resources

Structure

Systems Process

Mission

The organization's **mission** *is its purpose or reason for being.* The mission bridges the firm's identity and actions by specifying why the organization should exist and how it should act.[14] It answers these types of questions: "What do we do?" "What business are we in?" Employees need to understand what a company is and what it aims to achieve to provide meaning to work positively based on that purpose.[15] That is why many firms publish their mission statements.[16] Do you know the mission of a business you work for or have worked or volunteered for?

Here are two formally stated missions:

- **Walmart**'s mission is to help people save money so that they can live better.[17]

- The mission of **Springfield College** is to educate the whole person in spirit, mind, and body for leadership in service to others.[18]

Companies don't always define their mission as we would expect. How would you say **Machine Zone** (a game of war), the **Giants** (a baseball team), **Domino's** (a pizza company), and **McDonald's** define their missions? "We're a technology company. We're really not a game company."[19] "We're a media and entertainment company, not just a sports team."[20] "We're in the delivery business."[21] "We're in the real estate business."[22] The mission can change, such as **Microsoft** going from delivering Windows and Office to "developing technology to help people live better lives and businesses run

more efficiently," to "Our mission is to empower every person and every organization on the planet to achieve more."[23] **Unilever**'s mission (**IOM 1**), for example, "to add vitality to life," was adopted in 2004 in response to the changing business climate the company was operating in. Rather than retain its older mission that was more focused on shareholder value, the company adopted the perspective that it would grow its business by meeting the increasing consumer needs for a healthy lifestyle, greater convenience, and a greater focus on indulgence (greater variety, sensuality, and enjoyment).[24] Unilever's mission has fueled the company's efforts to use its brands to do good, while strengthening the health of its customers, the communities it works in, and the planet.[25]

Stakeholders *are people whose interests are affected by organizational behavior.* Stakeholders help provide the firms' resources; they make and buy the product, so their support is needed to achieve the mission. Nine stakeholders are listed in Figure 2.3 and discussed later.

The mission is an expression of the ends the organization strives to attain. The other internal environmental factors are considered the means to achieve the ends. Figure 2.1 illustrates how all factors of the internal environment are means to achieving the organization's mission. Note that managers develop the mission and set objectives, but the managers are a means to an end. You are responsible for helping to achieve your organization's mission.

Management and Culture

Top-level managers are responsible for the organization's performance as they develop the visionary mission, strategies, and plans to achieve success, and they are responsible to lookout for the interest of the owners.[26] It is likely **FedEx** would not be the success it is today without its founder and CEO, **Frederick W. Smith**.

An **organizational culture** *consists of the values, beliefs, and assumptions about appropriate behavior the members of an organization share.* The culture has to be based on the mission because firms need the right culture to achieve their mission. Because culture is such an important part of management,[27] we will discuss it in more detail after we have discussed the environment.

Resources

As stated in Chapter 1, organizational resources include human, financial, physical, and informational. Human resources (capital) is the most important,[28] because people develop and achieve the organization's mission and objectives through the other three resources.

Structure

Structure refers to the way in which an organization groups its resources to accomplish its mission.[29] As discussed in Chapter 1, an organization is a system structured into departments such as finance, marketing, production, and so on. Each of these departments affects the organization as a whole, and each department is affected by the other departments.[30] All of an organization's resources must be structured effectively to achieve its mission. Small companies, including **MailChimp**, develop more formal structures as they grow.[31] You will learn more about organizational structure in Chapter 7.

Unilever's top manager, **Alan Jope**, has been with the company since 1985, but in 2019 he assumed the role of CEO; he also serves on the company's board of directors (**IOM 2**). Unilever's primary resources are its properties, plants, human resources, and equipment. Unilever prioritizes developing high-quality managers and relies on the capabilities of these managers to establish connections across the company's decentralized units.[32] Other company resources include a strong reputation and strong brands. Unilever's structure includes a corporate headquarters located in London, England. The company is organized along three product divisions: beauty and personal care, home care, and foods and refreshment. It has offices and research and development locations across the globe.[33]
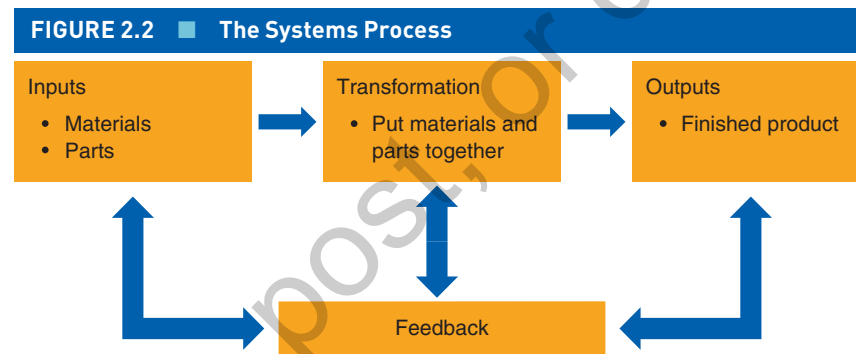
Systems Process

The input-output flow of resources is important to company performance.[34] Organizations structure resources to transform inputs into outputs, primarily to make and deliver products (again products

include both goods and services), such as a **Ford** car (goods) and **FedEx** package delivery (service). However, we all have a systems process to accomplish our tasks/job. The **systems process** *is the technology used to transform inputs into outputs to make and deliver products*. The systems process has four components:

1. *Inputs*. Inputs are an organization's resources that are transformed into products or services. At **FedEx**, the primary input is the millions of packages to be delivered worldwide daily.

2. *Transformation*. Transformation is the conversion of inputs into outputs. At FedEx, the packages (input) go to the hub (transformation), where they are sorted for delivery.

3. *Outputs*. Outputs are the products offered to customers. At FedEx, the packages are delivered to customers; the service of package delivery is FedEx's output.

4. *Feedback*. Feedback provides a means of control to ensure the inputs and transformation process are producing the desired results. FedEx uses computers to gain feedback through real-time tracking of packages to help ensure they are delivered on time.

See Figure 2.2 for an illustration of the systems process. Note that technology is used to make and deliver products, and the technology often is not high tech. In fact, there are companies called low tech.

FIGURE 2.2 ■ The Systems Process

Quality is an important internal factor within the systems process. Customers determine *quality* by comparing a product's actual functioning to their requirements to determine value. *Customer value* is the perceived benefit of a product, used by customers to determine whether to buy the product. Customers don't simply buy a product itself or buy the lower cost product. They buy the benefit they expect to derive from that product. Value is what motivates us to buy products. Companies like **Apple** use brand names like *iPhone* knowing customers will "value" the product and pay more for it.

Total quality management is the commonly used term for stressing quality within an organization. **Total quality management (TQM)** *is the process involving everyone in an organization focusing on the customer to continually improve product value*. The two primary principles of TQM are (1) focusing on delivering customer value and (2) continually improving the products and its processes. The Japanese term for continuous improvement is *kaizen*. You will learn more about quality and TQM in Chapter 15. See Figure 2.3 for a review of the components of the internal environment.

Amazon's top manager is still its founder, **Jeff Bezos**, who is the company's president, CEO, and chair of the board. Amazon's mission is to be earth's most customer-centric company for five primary customer sets: consumers, sellers, developers, enterprises, and content creators. In addition, it provides services, such as advertising and cobranded credit card agreements. Its primary resources are the internet and its computer system and merchandise. Its primary retail systems process inputs are customer product orders that are transformed/filled and shipped to the customer, resulting in an output of sales that have created customer value. Amazon's primary structure is having a U.S. headquarters and subsidiaries in other countries.

FIGURE 2.3   ■   The Organizational Environment

Global
Multiple Sets of Factors for Various Countries

External

Customers

Internal

Competition

Suppliers

Crisis

Mission

Economy

Systems Process

Structure

Labor Force

Management and Culture

Resources

Governments

Shareholders

Technology

Society

Feedback

Applying the Concept 2.1

The Internal Environment

Identify the internal environmental factor underlying each statement.

  A. management and culture
  B. mission
  C. resources
  D. system processes
  E. structure

_____ **1.** "At Koger supermarkets we buy vegetables, cut them up, place them in bags, and sell them as salad at a high markup."

_____ **2.** "At McDonald's, as the minimum wage continues to increase, we are buying kiosk machines to replace order takers and money collecting, which will save us money in the future."

_____ **3.** "Uber (transportation) got a lot of bad press based on sexual harassment and other internal problems."

_____ **4.** "At Dunkin' Brands, we sell doughnuts, but we make more money selling drinks and expanded to food (that is a major factor in changing the name from Dunkin Donuts) and even more on real estate by renting our facilities to franchisees."

____ **5.** "At Domic College, the department of business, under the School of A&S, is going to be expanded to become the School of Management."

____ **6.** "After a six-month search, the board finally hired a new CEO from our competitor."

The External Environment

The organization's **external environment** *includes the factors outside its boundaries that affect its performance*. Managers have very limited influence over what happens outside the organization, but they need to adapt to changes in their external environmental factors discussed here. See Figure 2.3 for a list of external stakeholder factors.

The external factors are sometimes separated into the task environment and general environment. Here, we briefly discuss how each external factor influences how you conduct business.

Task Environment

The task environment factors generally have a greater influence over how the firm conducts business than the general environment.[35]

- *Customers.* Business success is based on customer relationships and providing the products customers want. Without giving customers value, you don't have a business. To a large extent, **Amazon** is so successful because it focuses on customer value.[36]

- *Competition.* Organizations must compete for customers. When a competitor changes prices, firms tend to match prices to keep customers, such as **American**, **Asiana**, **Delta**, **KLM**, and **United** airlines. When competitors offer improved or better products, firms tend to do likewise, such as **Apple** and **Samsung** smartphones.

- *Suppliers.* Organizations buy resources from suppliers. Therefore, a firm's performance is affected by suppliers. During the COVID-19 pandemic, many companies could not buy needed supplies. American automakers **Ford** and **GM** had to stop production of some models because they couldn't get the needed computer chips to make the vehicles.

- *Labor Force.* The employees of an organization have a direct effect on its performance. Management recruits human resources from the available labor force outside its boundaries, and may need to negotiate with a union, such as the AFL-CIO or Teamsters.

- *Shareholders.* The owners of a corporation, known as *shareholders*, influence management. They vote for the directors of the corporation, who hire and fire top management, including **3M** and **GE**.

General Environmental Factors

The general environmental factors can influence the business immediately or over the short or long term.

- *Society.* Our society, to a great extent, determines what are acceptable business practices. Individuals and activist groups have formed to pressure business for changes, some with the help of **Activist Insights**.[37]

- *Technology.* Technology is used to transform inputs into output products and has changed the speed and the manner in which organizations conduct business. **HP**, for example, converts parts into PCs.

- *The Economy.* No organization has control over economic growth, inflation, interest rates, foreign exchange rates, and so on, but they clearly affect business operations. The **U.S. Federal Reserve** makes changes to help keep the economy growing.[38]

- *Governments*. International, national, state, and local governments all set laws and regulations that influence corporate behavior—what they can and cannot do. State and local laws and regulations vary; **DraftKings** was required by some state laws to stop fantasy sports games. At the local level, there are some laws stating you may need a license to start a certain business (alcohol, gambling) and where you can conduct business (zoning laws).

- *Crisis*. A crisis is an unexpected event from the external or internal environment that has a major impact on the firm. As you witnessed, during the COVID-19 pandemic many businesses, including **Gold's Gym** and **Young Beauty Salon,** were forced to stop conducting business.

As a company with a presence in 190 countries around the globe, **Unilever** faces unique challenges regarding both the task environments and general external environmental issues that influence its business (**IOM 3**). Regarding factors in the task environment, on any given day, approximately 2.5 billion people around the globe use a Unilever product, reflecting an enormous diversity in the company's customer base. Unilever works with thousands of suppliers across multiple regions of the world, requiring sensitivity to a huge array of cultural, business, and ethical values. With operations in more than 100 countries[39] and products for sale in more than 190 countries worldwide, Unilever's broad geographic footprint adds great complexity to the general environmental factors the company must respond to. In each setting, Unilever's key stakeholders, customers, employees, suppliers and other business partners, governments, and communities, bring different context and concerns to the company.

Global Mindset

Globalization has become a defining issue for business and society.[40] Let's start discussing the importance of the global economy and trade, followed by the need for a global mindset.

The Global Economy and Trade

It is through global trade that we increase the standard of living worldwide, so we cannot overemphasize the importance of the global economy.[41] Cross-border trade is precisely what made the United States the first economic superpower.[42] However, the United States is no longer the world's only economic superpower, because China's economy continues to grow at a faster pace and will eventually have a larger gross domestic product (GDP) than the United States.[43] The five largest countries by GDP are the United States (GDP $19.5 trillion), China ($12.2 trillion), Japan ($4.9 trillion), Germany ($3.7 trillion), and India ($2.7 trillion).[44] Unfortunately, due to the COVID-19 pandemic disruption of global trade, the GDP figures decreased.[45] Multinational companies (MNCs) are recruiting candidates with international experience, noting that it is a critical skill for moving into leadership.[46]

Global Mindset

How we see the world affects how we live and behave in our lives.[47] What is your world view and global mindset? Did you know that 4.25% of the world's population lives in the United States? More than one-third (36%) of the world's population lives in China and India.[48] More than two-thirds (68%) of people globally can't read and write.[49] Many large U.S. firms sell, hire, and invest more overseas than in the United States.[50] Having a global mindset is a career readiness competency.[51]

The **Thunderbird Global Mindset Institute** defines g*lobal mindset* as "the set of individual qualities and attributes that help a manager influence individuals, groups, and organizations from other parts of the world." The *Global Mindset Inventory (GMI)* measures global mindset and predicts performance in global leadership. The GMI indicates the strengths and areas of improvement in the three capitals: Global Intellectual Capital, Global Psychological Capital, and Global Social Capital. The institute also offers training to improve global mindsets.[52] For more information visit its website at https://thunderbird.asu.edu/knowledge-network/measuring-global-mindset-article.

Dynamic Environments and Interactive Management

Organizational environments are becoming more dynamic, turbulent, complex,[53] and competitive as change takes place at an incredibly fast pace.[54] There is always the opportunity that someone will come out of nowhere and crush you, like **Netflix** did to **Blockbuster** video retail stores. So, successful companies remake their environments.[55]

Businesses need to continually align their internal environment with changes in the external environment as they balance global and local environments.[56] The successful companies are the ones that keep changing, such as **Netflix** going from mailing DVDs, to streaming content, to producing original content. Management does so through *environmental scanning*—searching the environment for important events or issues that might affect the firm. But at the same time, change should be interactive, with a focus on thriving, not simply surviving. We discuss scanning in Chapter 5 and change in Chapter 6. Unilever's culture (**IOM 4**), for example, strives to enable employees to respond to changes perceived through environmental scanning. The firm's culture was characterized by 885 Unilever employees as that values collaboration and attempts to achieve agility, according to research presented in MIT's Sloan School of Business *Management Review*. In organizational cultures characterized by agility, employees are empowered to respond quickly and effectively to changes in the marketplace and seize new opportunities.[57]

According to **Russell Ackoff**, unlike reactive managers (who make changes only when forced to by external factors) and responsive managers (who try to adapt to the environment by predicting and preparing for change before they are required to do so), *interactive managers* design a desirable future and invent ways of bringing it about.[58] They believe they are capable of creating a significant part of the future and controlling its effects on them. They try to prevent threats, not merely prepare for them, and to create opportunities, not merely exploit them. Rather than reacting or responding, interactive managers make things happen for their benefit and for that of their stakeholders. **Apple** was interactive when it created the first PC and changed how we listen to and buy music and how we use our phones.

Amazon is a customer-driven company in a highly competitive industry where customers are extremely price sensitive and demanding in terms of getting their orders delivered as quickly as possible. Selling products it does not make requires good suppliers. **Walmart** and **Alibaba** are competing to take Amazon's online customers, and it is fighting with **Microsoft, IBM**, and **Google** over cloud services. Amazon is a corporation with stockholders, and it has a global workforce. It has invested billions of dollars in technology. Amazon is affected by economic growth, inflation, interest rates, and foreign exchange rates in more than 100 countries, and it must meet their laws and regulations. As a business grows, especially globally, the complexity of its internal and external environments increases.

As shown in Figure 2.3,[59] in the inner circle, a business has control of its five internal environmental factors, but it is influenced in the middle circle by its local external environmental factors and in the outer circle by its global environment. Imagine the complexity of **UPS** conducting business in more than 100 countries with different local external environments. Let's continue our discussion of conducting business in a global environment.

Applying the Concept 2.2

The External Environment

Identify which external environmental factor is referred to in each statement.

- **A.** customers
- **B.** competition
- **C.** suppliers
- **D.** labor force
- **E.** shareholders
- **F.** society
- **G.** technology
- **H.** the economy
- **I.** governments
- **J.** crisis

_____ **7.** "At Anthony's Pizza, we had a fire in the oven and had to close for two week to replace the oven and clean up the mess."

_____ **8.** "The owners of the company will get to vote on its being acquired or staying independent."

_____ **9.** "Are you going to close that sale to Costco?"

_____ **10.** "If we don't get a 4% raise, the Teamsters union will go on strike at our company."

_____ **11.** "Animal activist groups pressured the Ringling Brothers circus to the point that it stopped having elephant acts in 2018."

_____ **12.** "KFC bought some bad chicken in China, and sales declined."

_____ **13.** "Our company was going to be sold to Sprint, but the government said that would be in violation of antitrust laws."

_____ **14.** "Tesla is working on software for its cars to be self-driven."

_____ **15.** "LinkedIn and other social media websites took some of the traffic flow away from Facebook."

_____ **16.** "Since the recession ended, we have had an increase in sales, but revenues are still not above prerecession levels."

_____ **17.** "How will the move to electric vehicles affect Jiffy Lube oil change services?"

JOIN THE DISCUSSION: ETHICS & SOCIAL RESPONSIBILITY 2.1

DOWNSIZING AND PART-TIME WORKERS

As firms struggle to compete in the global economy, many have downsized. _Downsizing_ is the process of cutting resources to get more done with less and thereby increase productivity. In some firms, the positions formerly held by full-time employees are filled by part-time workers. Using part-time employees saves companies money because such employees do not receive any benefits (e.g., health insurance), in contrast to full-time employees, who are entitled to benefits. **Walmart** is known for maintaining a very high ratio of part-time to full-time employees as a way of keeping costs down. Walmart's employment policy is one of the reasons the chain can offer lower prices.

1. Is downsizing ethical and socially responsible? Explain your point of view.
2. Is using part-time employees rather than full-time ones ethical and socially responsible? Explain your point of view.
3. Would you be willing to pay higher prices at stores, such as Walmart, so more full-time workers could replace part-time workers?

WORK APPLICATION 2.1

Explain the internal environment factors and systems process where you work or have worked. Be sure to list the five factors and inputs, transformation, and outputs with examples.

TYPES OF BUSINESSES IN THE GLOBAL ENVIRONMENT

LEARNING COMPETENCIES

2.2 Contrast the classification of businesses in the global village.

In this section, we classify businesses in the global village.

Classifying Businesses in the Global Village

Let's begin with defining *global business* as the buying and selling of products (again includes both goods and services) among different countries. The **global village** *refers to companies conducting business worldwide without boundaries.* The word *village* implies something small and emphasizes that the world, although very large, is becoming smaller through technology. Global firms are conducting business internationally but adapting their products to local customs.[60] Hence, the popular phrase: think global, act local.

Domestic and International Businesses

A *domestic business* conducts business in only one country. Most small businesses, like **Anthony's Pizza Place**, are domestic businesses. But most domestics will get equipment, material, supplies, and so forth that are made in other countries, and they often compete with foreign owned companies locally.

An **international company** *is based primarily in one country but transacts business in other countries.* Technology and the internet have changed the way business is conducted in the global village. In its first 30 days, **Amazon** went international, recording sales in all 50 U.S. states and 45 other countries.[61] With Canadian hockey teams and U.S. hockey teams, the **NHL** is international. International companies commonly buy and sell products through importing and exporting. **Pier1 Imports** sells imported products.[62] **Ferrari** cars are made in Italy and imported for sale by car dealers in other countries.[63]

Multinational Corporations (MNCs)

A **multinational corporation (MNC)** *has ownership in operations in two or more countries.* The MNC can have partial or full ownership of the operations—a separate independent business facility (factories, warehouses, or offices) in another country. Partial ownership comes commonly through buying stock in a foreign company or through a strategic alliance.

The foreign company is commonly referred to as a *foreign subsidiary* or *affiliate*; in essence, a *subsidiary* is a company owned and controlled by another company, making up a combined company, called the *holding company* or *parent company*. **FedEx** expanded globally by acquiring several other companies to deliver its packages to other countries. But companies can also have same-country subsidiaries.

The parent company **PepsiCo**'s primary businesses include **Frito-Lay**, **Quaker**, **Pepsi-Cola** (it sold **Tropicana**), and **Gatorade**, with operations in the United States and globally selling national and (local) brands. PepsiCo has several divisions: in North America; Latin America; Europe; Africa, Middle East and South Asia; and the Asia Pacific, Australia/New Zealand, and China regions.[64]

There is also a *transnational company*, a type of MNC that eliminates artificial geographical barriers without having a real single national headquarters. **IBM** changed its structure from a country-based structure to industry groups to transcend boundaries.

WORK APPLICATION 2.2

Classify a business you work for or have researched. If the business is international or an MNC, list some of the countries in which it does business.

ETHNOCENTRISM IS OUT AND "MADE IN AMERICA" IS BLURRED

LEARNING COMPETENCIES

2.3   Define ethnocentrism.

Parochialism means having a narrow focus or seeing things solely from one's own perspective. **Ethnocentrism** *is regarding one's own ethnic group or culture as superior in comparison to others.* To some degree we all exhibit some form of ethnocentrism. Thus, a parochial view is part of ethnocentrism,

which often contributes to negative stereotypes. In the global village, we need a global mindset.[65] Another negative stereotype is the *not-invented-here (NIH)* syndrome, described as a negative attitude toward knowledge/technology/products from other external sources.

Successful managers of large companies headquartered in the United States (including **Coca-Cola** and **Google**, to name just two) are not ethnocentric and do not have an NIH attitude; they view themselves not simply as American companies but rather as companies conducting business in a global village. If MNCs can buy or make better or cheaper materials, parts, or products and make a profit in another country, they do so.

Many consumers subscribe to the idea behind "Buy American," but few know the country of ownership or origin of the products they regularly purchase. Look at the labels in your brand-name clothes and you will realize that most clothing is not made in America. Some vehicles are made in America (**GM** and **Ford**) with more foreign than American parts. **Toyota** and **Honda** make some cars in America with fewer parts coming from foreign companies. So, which is "really" made in America? The **Made in America Store** sells 100% made in America products,[66] but it has a challenge stocking the store with fashionable only-American merchandise and electric or electronic products because they are often made abroad.

Do you know or even care which products are American or foreign owned? Test your global knowledge of company and product country of ownership by completing Table 2.1.

TABLE 2.1 ■ Country of Origin Ownership of Products

For each item, determine the country of origin. If your answer is the United States, place a check in the center column. If it's another country, write the name of the country in the right-hand column.

Product	Country of Origin
1. Shell gasoline	
2. Nestlé hot cocoa	
3. Dove soap	
4. Pep Boys auto centers	
5. L'Oréal cosmetics	
6. Johnson & Johnson baby powder	
7. Burger King fast food	
8. Samsung televisions	
9. Bayer aspirin	
10. Bud Light beer	
11. Volvo cars	
12. AMC theatres	
13. Spotify music	
14. Adidas sneakers	
15. Tide detergent	

1. Shell is owned by Royal Dutch Shell of the Netherlands. 2. Nestlé is headquartered in Switzerland. 3. Dove is a brand of Unilever, which is British. 4. Pep Boys is Japanese. 5. L'Oréal is French. 6. Johnson & Johnson is a U.S. company. 7. Burger King stock is controlled by Brazilian 3G Capital. 8. Samsung is South Korean. 9. Bayer is German. 10. Bud is owned by Anheuser-Busch InBev and is Belgian owned. 11. Volvo and 12. AMC are both Chinese owned. 13. Spotify is Swedish owned. 14. Adidas is German owned. 15. Tide is a brand of Procter & Gamble and is U.S. owned.

How many did you get correct?

JOIN THE DISCUSSION: ETHICS & SOCIAL RESPONSIBILITY 2.2

BUY AMERICAN

You most likely have heard the slogan "Buy American." Many labor unions urge Americans to buy products made in the United States, because that helps retain jobs for American workers. On the other hand, some Americans ask why they should buy American products if they cost more, or their quality or style is not as good as that of foreign-made products. But as you've seen, it isn't always easy for consumers to know the country of ownership of many products they buy.

1. Is it ethical and socially responsible to ask people to buy American?
2. Is it ethical and socially responsible to buy foreign products?

WORK APPLICATION 2.3

Do you try to buy products made in the United States? Should you?

ORGANIZATIONAL CULTURE

LEARNING COMPETENCIES

2.4 Describe the three levels of organizational culture and their relationship to each other.

Organizational culture is important, because it should be how the firm achieves its mission by living its values and beliefs on a daily basis.[67] Workplace culture drives business at **Wireless Vision**, the largest **T-Mobile** exclusive partner, as it guides management practices.[68]

Google is consistently rated one of the top companies to work for, in part because of its casual atmosphere that encourages employees to participate in discussions about company decisions.

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In this section, we will discuss how employees learn organizational culture, the three levels of culture, strong and weak cultures, managing and changing cultures, and organizational learning.

Organizational Culture Artifacts

Organizational culture is about a shared set of beliefs and practices defining appropriate relationships and activities. Culture is primarily learned through observing people and events. Simply, you watch and listen to people and learn the culture of what you should and shouldn't do. Culture is created slowly over time by people and events—by the stories.[69] More complex, there are six artifacts of organizational culture, which are important ways that employees learn about culture:

1. *Heroes*, such as **Apple** founder **Steve Jobs** and others who have made outstanding contributions to their organizations.

2. *Stories* are narratives, and they are a good way to convey cultural knowledge. They are often about founders and others who have made extraordinary efforts, such as **Walmart** founder **Sam Walton** visiting every store yearly. Public statements and speeches can also be considered stories.

3. *Slogans*, such as **McDonald's** Q, S, C, and V (or quality, service, cleanliness, and value). One of the corporate mantras on display at **Amazon** for workers reads "Work Hard, Have Fun, Make History."[70]

4. *Symbols*, such as the **Major League Baseball** and **Little League Baseball** logos, team mascots, plaques, pins, jackets, trophies, rings, and so on.

5. *Rituals*, such as a high-five, ringing a gong after making a deal at **Indeed**, a chest bump, and so on.

6. *Ceremonies*, such as awards dinners for top achievers at **Macy's**.

Levels of Organizational Culture

For people to flourish, managers need to design a nurturing environment that is supportive, encouraging, and challenging.[71] The three **levels of culture** *are behavior, values and beliefs, and assumptions*. Figure 2.4 illustrates the three levels of culture.

FIGURE 2.4 ■ Three Levels of Organizational Culture

Level 1
Behavior

Level 2
Values and Beliefs

Level 3
Assumptions
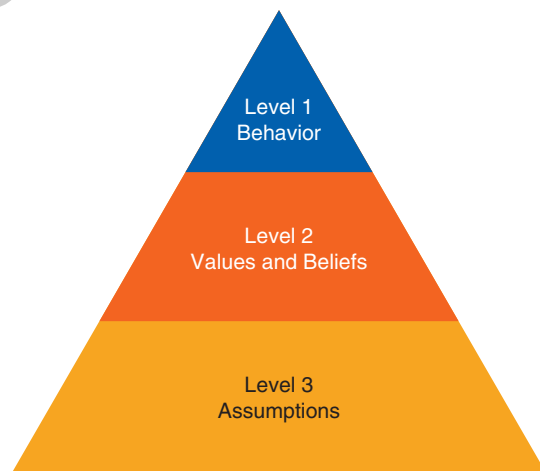
- *Level 1: Behavior.* Behavior includes the observable things people do and say or the actions employees take. Heroes, stories, slogans, symbols, rituals, and ceremonies are all part of behavior-level culture.

- *Level 2: Values and Beliefs.* Values represent the way people believe they ought to behave. Values and beliefs guide decision making and shape the behavior that results in level 1 culture. Although organizations use all six artifacts to convey the important values and beliefs, the slogan is critical to level 2 culture. A *slogan* expresses key values.

- *Level 3: Assumptions.* Assumptions are values and beliefs so deeply ingrained they are considered unquestionably true and taken for granted. Because assumptions are shared, they are rarely discussed. They serve as an "automatic pilot" to guide behavior. Assumptions are often the most stable and enduring part of culture and are difficult to change.

Strong and Weak Cultures

Organizational cultural strength is characterized by a continuum from strong to weak. A successful culture operates on simple, easily understood artifacts. Organizations with strong cultures have employees who share the values and beliefs and behave as expected.

Organizations without easily understood artifacts, and/or with many employees who do not behave as expected have weak cultures. In a strong culture, the group peer pressures nonconformists to behave as expected. Weak cultures tend to lead to mixed messages of how to behave at work. **Netflix** has a well-earned reputation as a tough place to work with a strong culture that calls for radical candor, constant feedback, and consistently evaluating performance. Employees live and die by the "keeper test," a method by which the bosses determine whether someone is worth keeping or is an underperforming asset and gets fired. On the downside, a former executive describes the work environment as unhealthy. Netflix has a "culture of fear" in which "everybody is chipping away at each other."[72]

Healthy and Unhealthy Cultures

Organizational health is on a continuum from healthy to unhealthy. The continuum can also be thought of as positive or negative. A *healthy culture* has positive values that are implemented to contribute to success. Conversely, a culture can have unhealthy factors that are negative and hinder success and can lead to failure. Being on a continuum, a firm can have elements of both healthy and unhealthy cultures.

Wesley Financial Group created a strong, safe family-first culture and is listed on the *Fortune Best Workplaces for Women* and *Inc.*'s *Fastest Growing Companies in America*.[73] **Amazon** is said to have a strong but somewhat cutthroat unhealthy culture based on stories of endless hours, brutal working conditions, and an environment that pushes people beyond their limits.[74]

The primary benefits of a strong culture include easier communication and cooperation that fosters team collaboration and relationships among colleagues.[75] A primary disadvantage is the threat of becoming stagnant and not changing when you should. Also, wanting to be part of the culture to be accepted, people often go along with the group and can lead to unhealthy unethical behavior that is self-reinforcing.[76] **VW** had a strong and unhealthy culture as it was caught devising software to lower emissions tests. The VW CEO stated its culture was flawed, because it tolerated rule breaking that allowed the deception to continue for a decade.[77]

Managing Organizational Culture

Strong, healthy cultures don't happen by accident, and it's not easy. Many organizations are training their employees to fit their culture. **Symbolic leaders** *articulate a vision for an organization and reinforce the culture through slogans, symbols, and ceremonies.* **Jeff Bezos** of **Amazon** is often cited as an example of a great symbolic leader and he says culture is important and you need to protect it.[78]

Organizational culture can be managed by drawing continual attention to its six artifacts. If any of these artifacts of a strong, healthy culture are missing or weak, top management can work to strengthen

the culture. However, strengthening an organizational culture is not a program with a starting and ending date; it is an ongoing slow process.[79]

Applying the Concept 2.3

Strong and Weak Cultures

Identify whether each statement reflects an organization with a strong or weak culture.

    A. strong culture
    B. weak culture

_____ **18.** "When I walked around the department during my job interview, I realized I'd have to come to work in formal attire because all the women were wearing dresses or suits."

_____ **19.** "It's hard to know if I need to follow the ethics code because managers act unethically every now and then."

_____ **20.** "Oh, no. Do I really have to listen to the story about how the company founder Ted walked three miles in a snowstorm to deliver the package on time again?"

_____ **21.** "Everyone in the department acts differently, so I guess I can just be me rather than trying to act in a manner acceptable to others."

_____ **22.** "I started to tell this 'dumb blond' joke, and the other employees all gave me a disapproving look, so I stopped."

Changing Organizational Culture

Organizational cultures often need to be changed to ensure organizational success. However, changing cultures is not easy. **VW** is working to change the unhealthy parts of its culture. **Uber** had a toxic culture that allowed sexism and sexual harassment and it removed its founding CEO **Travis Kalanick** and replaced many managers to clean up the culture. **Sonia Syngal** was hired as CEO of **Gap Inc.** to revive the company, and that meant changing its culture, which she said was lumbering and risk-averse.[80]

Learning and High-Performance Organizations

The learning and high-performance organization is not a program with steps to follow. It's about managing and changing the culture to adapt to the ever-changing environment. A **learning organization** *has a culture that values sharing knowledge so as to adapt to the changing environment and continuously improve.*

These organizations are based on knowledge sharing to improve. Everyone you meet in your personal and professional life knows more about something than you do. So, your job is to get people to pass that knowledge on to you so you can continually improve yourself.

Samin Nosrat, author of *Salt, Fat, Acid, Heat*, discovered the link between behavior and motivation early in her career. In her first role as a leader running a kitchen she admits being very passive aggressive in her approach: "Oh, you're not going to listen if I'm being nice and explaining this patiently? Maybe the only way you'll listen is if I'm mean. I'm not proud of that. It became this cancer that basically ate me and my co-workers."[81] She stresses the importance of hiring others who have the same values as you: "How I treat people, and how we treat one another, and the feeling around what we're doing—that's the most important thing."[82]

WORK APPLICATION 2.4

Identify the cultural heroes, stories, symbols, slogans, rituals, and ceremonies for an organization you are/were a member of. Is the organizational culture healthy and is it a learning and/or high-performance organization?

BUSINESS ETHICS

LEARNING COMPETENCIES

2.5   State the ethical viewpoints used to define ethics.

Scandals, disruptive publicity of misconduct, are common today.[83] The unethical character of some corporations globally has led to a decline in public confidence of managers, and more than half (54%) of Americans don't trust business in general.[84] **Acumen** CEO **Jacqueline Novogratz** says we have experienced a technical revolution; the next chapter is a moral revolution.[85] Ethics can be taught and learned, so to improve ethics, business schools are teaching more ethics courses and including ethics as part of other courses, such as this one, than ever before.[86] Because ethics is so important, we will discuss it in five separate sections. In this section, we first define business ethics and views of business ethics.

What Are Ethics?

Ethics *are the standards of right and wrong that influence behavior.* Right behavior is considered ethical, and wrong behavior is considered unethical. Honesty is ethical, which means lying, cheating, and stealing are unethical. On average, people tell one or two lies a day.[87] Unfortunately, some people lie about things for no good reason and don't care if they hurt others.[88] We constantly have to make decisions that can be either ethical or unethical.

Government laws and regulations are designed to govern business behavior. The **Sarbanes-Oxley Act** of 2002 was passed to tighten the laws affecting business ethics.[89] However, ethics go beyond legal requirements to do the right thing even when we don't have to. It is not always easy to distinguish between ethical and unethical behavior, such as accepting a gift (ethical) versus taking a bribe (unethical). But our objective is to help you know the difference.

Views on Ethics

There are multiple ways you can view ethics, and we address some of the most common viewpoints here.

Utilitarian, Rights, and Justice Views of Ethics

- *Utilitarian view* states that ethical decisions should be based on creating greater good for society (provide the greater good for the greatest number based on consequences/outcomes of actions).

- *Rights view* states that ethical decisions should respect and protect individual privileges (right to privacy, free speech).

- *Justice view* states that ethical decisions should be made to treat everyone fairly and impartially (don't discriminate, which we will discuss in the next chapter).

Note that when implementing the utilitarian view of ethics, you sometimes violate the rights of others and justice because everyone is not treated fairly—some people gain, and others lose. Or when you strive for some perceived greater good or purpose, some people can be harmed in some way by the behavior.[90] Some people may consider the behavior ethical and others as unethical or unfair for certain people.

Universalism Versus Relativism Views of Ethics

- *Universalism ethics* states there is absolute truth or right and wrong behavior, such as honesty. It is often easy to find the truth, but it is hard to face it, and even harder to follow it.[91]

- *Relativism ethics* states there is no absolute truth or right or wrong—which contradicts itself by using an absolute. Relativism is popular today because it promotes isms (Chapter 1) and

deciding for yourself what is true or right and wrong for you. Relativism tends to promote *utility-driven rationality*—the disregard of moral values and advocating for "value free ethics" that places the individual "beyond ethics."[92]

UNETHICAL BEHAVIOR

LEARNING COMPETENCIES

2.6 Explain how people justify unethical behavior.

We all participate in some degree of unethical behavior.[93] In this section, we discuss why we behave unethical at times, how we justify it, how gossip hurts everyone, how unethical behavior escalates, and why ethical behavior pays.

Why Do Good People Do Bad Things?

Most people understand right and wrong behavior and have a conscience. So why do good people do bad things? Most people aren't simply good or bad. Almost everyone will be unethically at times, at least a little, and there are motivational explanations for unethical behavior.[94] We respond to "incentives."[95] Incentives tempt us to focus on our own self-interest.[96] So we can usually be manipulated to behave ethically or unethically if we are offered the right incentives. The incentive (or reason we are unethical at times) is usually for personal self-interest gain,[97] greed, or to avoid getting into trouble and being punished (we sometimes create the situation in the first place).[98] Also, some people don't believe the rules apply to them. Some salespeople sell products people don't really need to increase their income. **Wells Fargo** bank employees opened accounts that customers didn't ask for. There were financial gains for doing so, and some employees feared losing their jobs if they didn't meet high quotas. Be mindful that a happy conscience makes for a happy outlook on life, whereas an unhappy conscience makes us miserable on the inside and everyone else miserable on the outside.[99]

How Do People Justify Their Unethical Behavior?

Today's society has become desensitized to the reality that immorality exists, and we accept and justify it more than ever.[100] Few people see themselves as unethical. We all want to view ourselves in a positive manner. Therefore, when we do behave unethically, we usually justify the behavior by *rationalizing* to ourselves that there was a good reason for the behavior. Justification protects our *self-concept*,[101] so we don't have to feel bad. If we are only a little dishonest, we can still feel good about our sense of integrity, so we justify our unethical behavior.[102]

Here are some common justifications for our unethical behavior.

- *Everyone else does it*—we all cheat in college; everyone takes things home (steals).
- *I did it for the good of others or the company*[103]—I altered the company records to make the company look good; we are not terrorists, but rather freedom fighters who bomb to help our cause.

- *I'm not as bad as the others*[104]—I only call in sick when I'm not sick once in a while.

- *Disregard for or distortion of consequences*—No one will be hurt if I inflate the figures, and I will not get caught. And if I do, I'll just get a slap on the wrist anyway.

Have you faced either of these two justifications?

- *My peers made me do it—peer pressure*—I didn't want to help them to get paid for not working.

- *My boss made me do it (lie, steal, cheat)*—At **Wells Fargo** employees opened accounts customers didn't ask for.

We can easily step off the right path thorough justification for our unethical behavior.[105] We should know our motives and the incentive for being unethical. If our motives are good, our behavior will likely be ethical, and if our motives are bad, we will likely be unethical. By finding others who are more unethical than we are, we falsely believe we are better than they are, but the comparison doesn't make us good, just less bad than others. We need to be careful not to excuse our unethical behavior saying we are a victim of our circumstances because justification assumes that virtue is a matter of circumstances, and not of moral effort.[106]

Most of us allow unethical behavior, such as discrimination and corruption, to exist, because we have justifications for not acting, and we do not have the courage to speak up and take action to stop it.[107] When was the last time you took action to prevent or stop others' unethical behavior?

Gossiping Hurts Everyone

Gossiping[108] is talking negatively about others, usually based on rumors (not true facts), and it is commonly accepted. *Slander* is when we say something to intentionally hurt someone's reputation; often through gossiping. Gossip affects everyone involved, often includes exaggerations and lies, and it can never be undone. Think of it like this. Take a feather pillow on a windy day and cut it open. Now pick up every feather—you can't. Rumors spread far and wide and cannot be taken back. Even if people admit their slander was false, some people will still believe it is true. So, the damage can never really be undone.

No one is immune to gossip. It can adversely impact both those who choose to spread it and those who are the subject of it.

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We don't think of ourselves as murderers, but we can murder a person's reputation and rob the victim of dignity and career opportunities, possibly hurting their self-esteem, causing them pain, and it has even led to suicide. Social media makes it easy to kill others' reputations, and people are getting rich online by gossiping and slandering others.

A good rule to follow is, if you can't say anything nice about a person, don't say anything at all. I admit I've been a coward who sat silently and listened passively, and worse I've piled on gossip kicking the person while they were down. When was the last time you heard someone make negative comments about others? When was the last time you started the gossip and what was your motive? It takes great courage to speak out against gossip. Do you like others to gossip about you? When was the last time you spoke out suggesting that others not gossip and trying to defend the person?

Before you slander someone, answer these questions: Is it true and verified by facts, not just hearsay rumors from others? Is it necessary to tell someone the slander? Does the person need to know the gossip? Does the slander help (reporting illegal and unethical behavior to stop it) or hurt others (slandering just to hurt others or to help us in some way)?

If you are thinking, *doesn't gossip to vent against unjust behavior help*, research says that venting doesn't help. Why? All we do is focus on the negative unjust behavior and it robs us of our happiness. What does help is to take action to prevent, stop, and change the unethical behavior situation. You will learn how to resolve conflicts in Chapter 10.

Caution Against Escalation of Unethical Behavior

Today, we live in a time of ethical confusion, with *relativism* saying there is no absolute truth or right or wrong. It's tempting to change the rules or truth and be unethical for personal gain, justifying the behavior by telling ourselves it's OK.

Did the people at **Enron** and other companies start out planning to lie, cheat, and steal? Most didn't. What tends to happen is the company doesn't hit the target numbers, and the employees think "let's give inflated numbers this quarter, and we will make it up next quarter, and no one will know or get hurt in any way." The problem is, for several quarters the same thing happens so they get to the point of not being able or willing to admit their unethical/illegal behavior until they get caught. Little white lies are not little.

It is important to understand the subtlety of how unethical behavior can take hold of you. It happens gradually, and with repetition we can accept and justify our unethical behavior, such as gossiping and lying, and it becomes a habit.[109] The first time we use unethical behavior is harder, but it gets easier, and one lie leads to others; especially if we don't get caught, the easier it is to be unethical. The things we do repeatedly determine our ethical character.[110] The moral of the story is don't take the first step that leads to escalation of unethical behavior.

Does Ethical Behavior Pay?

The behavior of employees can impact a business in many ways. If employees behave ethically does the company benefit? Does the employee benefit? Let's now take a look at the impact ethical behavior can have on a personal, organizational, and global level.

At the Personal Level

Let's take a personal view. Companies don't make unethical decisions—people do. Recall from Chapter 1 that executives identified integrity as the most important management quality for success. Society commonly believes that isms (relativism, hedonism) bring us happiness—but they don't. Research found that isms make it more difficult to achieve pleasure, and make it easier to feel pain. Being honest has a positive effect on the front part of the brain used to make decisions, and honesty leads to happiness.[111]

Many companies seek integrity in job applicants and even test for ethics. Also, recall our question, "Do you want to be happy?" Relationships are based on trust, and you get and keep friends and customers based on trust. Unethical behavior that you justify might give you some type of short-term gain, but in the long run, you've sabotaged yourself. How? Because we eventually get caught being dishonest and

lose people's trust—hurting our relationships, sometimes losing friends, and even going to jail. **Bernie Madoff** conducted the largest Ponzi scheme in financial history, defrauding thousands of investors out of tens of billions of dollars.[112] Madoff got caught, went to prison for his unethical and illegal behavior, and died in prison.

Victims of dishonesty often use counterproductive behavior and revenge tactics. It can take years to build trust and only one lie to destroy it. How many friends do you have who are dishonest with you and take advantage of you for their own personal gain at your expense? So yes, the truth absolutely, unequivocally does matter. Businesses seek employees who are ethical and subscribe to the firm's moral standards.[113]

At the Organizational Level

Let's consider the cost of unethical behavior. Unethical behavior can hurt multiple stakeholders and have a negative impact on society.[114] How do we put price on a life? **Johnson & Johnson** and three other opioid distributors have agreed to pay $26 billion to settle lawsuits for mishandling the painkillers that resulted in more than 500,000 deaths.[115] **Jan Marsalek** fraudulently made $2 billion disappear from German **Wirecard**, resulting in the collapse of the company with losses to stockholders, employees, lenders, investors, and other stakeholders.[116] The **VW** emissions scandal may be responsible for nearly 1,200 premature deaths in Europe due to excess emissions and will ultimately cost the firm more than €30 billion.[117]

At the Global Level

When conducting global business, several executives say you have to use relativism ethics based on cross-cultural differences to effectively transact business,[118] and this includes corruption, including giving bribes. Unfortunately, corruption is one of the grand challenges facing global society and it has been implicated as the root cause of numerous social and economic problems.[119]

Corruption is estimated to increase international project costs by more than 10%. Furthermore, corruption can add up to 25% to the cost of procurement contracts in some countries. According to the **World Economic Forum**, global corruption costs more than $1 trillion being paid in bribes each year, and "that corruption reduces global GDP by more than 5%."[120] Instead of money being used to increase societal standards of living (more products at lower costs), the money goes to corrupt individuals (increasing the price of products). Will we ever see the day when we no longer have corruption, replacing it with universal ethical business standards globally (**Global View**)?

WORK APPLICATION 2.6

Give at least two organizational examples of unethical behavior and the justification that was used in each instance.

FACTORS THAT INFLUENCE BEHAVIOR TO BE ETHICAL OR UNETHICAL

LEARNING COMPETENCIES

2.7   Name three factors that influence behavior to be ethical or unethical.

Ray Kroc, who acquired **McDonald's**, said the quality of a person is reflected in the standards they set for themselves.[121] If you want to have integrity, here are three things to realize that can influence your behavior to be ethical or unethical.

Personality Traits and Attitudes

In Chapter 10, you will learn more about personality. For now, you probably already realize that because of their personalities, some people have a higher level of ethics than others, or they have an ethical

character personality trait. Related to personality is our attitude toward ethics. People with integrity intentionally use ethical behavior, whereas unethical people don't consider whether their behavior is ethical or not—"it's all about me." They lack moral character.[122] Some people are at the point that they don't even realize they are dishonest and don't see anything wrong with lying. So watch for patterns in people's behavior, such as lying.[123]

Our character becomes what we read and watch in the media, which often glamorizes unethical behavior, and we also become what we hear and observe at school, practice, and work. We rise or fall to the ethical level of who we associate with. How often do you hear and see unethical behavior? It can change the way we treat each other for better (including everyone) or worse (discrimination). What do you listen to and watch, and who do you associate with? Is your behavior influencing others to be more or less ethical? Does your behavior encourage others to be more ethical?[124] Will you make a commitment to be more ethical? If so, read on.

Moral Development

Unethical behavior violates moral principles and *moral development*, which refers to distinguishing right from wrong and choosing to do the right thing.[125] We are all leaders, and leadership has an ethical dimension; our ethics defines our leadership.[126] Thus, there is an emergence of moral leadership.[127] People's ability to make ethical choices is related to their level of moral development.[128] The three levels of personal moral development are preconventional, conventional, and postconventional, as illustrated in Figure 2.5. What level have you reached?

Most people are on the conventional level. But we should realize that moral principles are not based on majority opinion or what everyone else is doing. Wrong is wrong, even when everyone is doing it.[129] What can you do to further your moral development?

FIGURE 2.5   ■   Levels of Moral Development

3. Postconventional. Behavior is motivated by universal principles of doing what is right, regardless of boss or peer pressure to be unethical.

There is no justification for unethical behavior.

Example: "I don't lie to customers because it's wrong to do so."

2. Conventional. Behavior is motivated by the desire to be accepted by copying the behavior of bosses or peers that can pressure members to copy their behavior.

Unethical behavior is justified.

Example: "I lie to customers because the other sales reps do it, too."

1. Preconventional. Self-interest motivates behavior; people act to meet their own needs for personal gain.

No need to justify unethical behavior because it's OK to do so.

Example: "I lie to customers to sell more products and get bigger commission checks."

The Situation

Although we do tend to have a relatively stable level of moral development, we can be on different levels for different issues and situations.[130] Situation's matter more when they are strong, because they tend to limit decision options and send signals about expectations.[131] Sometimes we will lower our moral level to be accepted by the group,[132] especially when there is peer, boss, or company pressure to conform to the unethical behavior, or to at least not report it.[133]

Unsupervised people,[134] those who believe they will not get caught, those in highly competitive situations,[135] those under high performance pressure,[136] and those performing below aspiration levels are more likely to engage in unethical behavior for personal gain or to stay out of trouble. Unethical behavior occurs more often when there is no formal ethics policy or code of ethics,[137] and when unethical

behavior is accepted as part of the organizational culture and is not punished, and even more so when managers ask and reward employees for using unethical behavior.[138] Recall the **Uber** and **Wells Fargo** examples.

When dealing with people in countries where giving bribes is the accepted way of conducting business, people are more likely to view what is considered corruption in the United States as ethical behavior and give bribes to gain business (**Global View**).[139]

People are also less likely to report unethical behavior (blow the whistle) when they perceive the violation as not being serious, when they are friends of the offender, or when they fear retaliation from bosses or peers. Ever see a show in which police get punished by their peers for whistleblowing on other officers who were clearly guilty of breaking the law? It takes high moral responsibility to be a *whistle-blower*. Have you ever blown the whistle? Will you?

Applying the Concept 2.4

Level of Moral Development

Identify each statement by its level of moral development.

  A. preconventional level
  B. conventional level
  C. postconventional level

_____ **23.** Jean says to the customer, "You can trust me not to sell you a stock that is not in your best interest."

_____ **24.** Wo says, "I've never had a drink on the job, but I'll take a shot of that whiskey with you guys."

_____ **25.** Shawn says to Lolo, "There is no big deal in telling lies to customers. We are helping them buy a good product."

_____ **26.** Jose says, "I can't lie to customers because it is against my Christian religion; it is a sin to lie."

_____ **27.** Latavia says to John, "You're not selling as much as the rest of us. You really should lie to customers like we do. If the boss asks why you aren't selling as much as the rest of us, you better not tell him we lie, or you will be sorry."

WORK APPLICATION 2.7

Give an example from an organization where you work or have worked of behavior at each of the three levels of moral development.

GUIDES TO ETHICAL BEHAVIOR

LEARNING COMPETENCIES

2.8 Identify four guides to ethical behavior.

If we are going to make business more ethical, we have to start with ourselves. Are you an ethical person?[140] We can improve our ethical character.[140] Every day in your personal and professional lives, you face decisions in which you can make ethical or unethical choices when you face moral dilemmas,[141] and ethical guidelines can help us do the right thing.[142]

Doing the right thing isn't always easy, and there are situations when it's not a clear right versus wrong choice. Being ethical is not just avoiding dishonest behavior. It involves ethical reasoning, moral sentients, and practical copying capabilities.[143]

Sometimes we do things that are bad for us, and sometimes hurt people even though deep down we don't want to harm them[144] (ever been there done that?). Recall that we should use theory to guide practice.[145] Formal efforts to be ethical do help.[146] Before we act, using an ethical guideline can help us to stop before we act unethically.[147] Following are some guides that can help you make the right decisions.

Golden and Platinum Rule

Are you familiar with the biblical Golden Rule: "Do unto others as you want them to do unto you," or "Don't do anything to anyone that you would not want someone to do to you"? Most religions have a variation of the Golden Rule. **Southwest** follows the Golden Rule, meaning we treat each other the way we want to be treated, which is why doing the right thing by our Employees and Customers is so inherent to who we are as a Company."[148]

But in today's diverse global world, not everyone wants to be treated the way you do. So, how you want to be treated is not as important as how the other person wants to be treated. Thus, a new Platinum Rule was developed, which says to treat other people as they want to be treated.[149] The workplace and world could change overnight if we all followed these simple guides for our behavior.

Four-Way Test

Rotary International has a motto, "Service Above Self." This is a great motto to live by because helping others, as opposed to the "What can you do for me?" mentality, will improve relationships. Rotary developed a four-way test to guide one's thoughts and behavior in business transactions to live the motto. The four questions are (1) Is it the truth? (2) Is it fair to all concerned? (3) Will it build goodwill and better friendship? (4) Will it be beneficial to all concerned? When making a decision, if you can answer yes to these four questions, your potential course of action is probably ethical.[150]

Stakeholders' Approach to Ethics

Under the **stakeholders' approach to ethics**, when making decisions, you try to create a win-win situation for all relevant stakeholders, so everyone benefits from the decision. Unfortunately, this is not always easy, because multiple stakeholders often have conflicting interests, such as during a layoff. You can ask yourself one simple question to help you determine if your decision is ethical from a stakeholders' approach: "Would I be proud to tell relevant stakeholders my decision?" If you would not be proud to tell others your decision or you keep rationalizing it, or if you are trying to cover your tracks, the decision may not be ethical. You can't always create a win for everyone, but you can try.

Discernment and Advice

Before you act, use an ethical guide to discern if the behavior is ethical or not. Next time you are about to act unethically, pause and ask yourself, "What are the ethical implications?"[151] "Why am I considering this?" "What are the possible consequence costs of the behavior?"[152] If you are unsure whether a decision is ethical, talk to your boss, higher-level managers, and other people with high ethical standards. If you are reluctant to ask others for advice on an ethical decision because you may not like their answers, or worse you don't want them to know about it and you keep justifying it, the decision may not be ethical.

Application of Ethical Guides

Research shows that making a decision without using an ethical guide leads to less ethical choices. Using ethical guides at the point of making a decision helps keep you honest. So, if you want to develop, maintain, or improve your relationships, be ethical and practice to get in the habit of using an ethical guide when making decisions.[153] Are you willing to commit to doing so now?

Unilever, for example, is a company that has made ethics and business integrity central to its way of doing business (**IOM 5**). To achieve this, Unilever created a Business Integrity program and established a Code of Business Principles in 1995—which has been periodically updated, even as recently

as 2020—in order to equip managers and employees with formal policies, guidelines, procedures and controls, and learning materials that enable everyone to prevent and detect unethical conduct and respond to it effectively when it occurs.[154]

WORK APPLICATION 2.8

Which of the ethical guides are the most relevant to you, and do or will you make it a habit to use the guide when making decisions?

MANAGING ETHICS

LEARNING COMPETENCIES

2.9   State three things organizations should do to manage ethics.

An organization's ethics are based on the collective behavior of its employees. If each individual is ethical, the organization will be ethical. It's management's job to help ensure that everyone in the firm uses ethical behavior. Some organizations take ethics very seriously and even compete to be listed in the **Ethisphere** *World's Most Ethical Companies*, which includes honorees such as **3M**, **Best Buy**, **Dell**, **L'Oréal**, **Starbucks**, and **TIAA**.[155] Here are three things managers should do to help ensure employees use ethical behavior.

Codes of Ethics and Training

Also called *codes of conduct*, codes of ethics state the importance of conducting business in an ethical manner and provide moral standard guidelines (dos and don'ts) for ethical behavior.[156] Most large businesses have formal written codes of ethics,[157] and many provide ethics training for employees.[158] Many MNCs are training managers how to lead ethically.[159] For an example code of ethics, go to your college website and/or a company you would like to work for, and search for its code of ethics.

Top Management Support and Example

Employees come to perceive their leaders as ethical or unethical, regardless of an ethics code.[160] Managers are ultimately responsible for the behavior of their employees, and they need to lead by setting an ethical example, because employees tend to copy their behavior, so top managers must promote an ethical culture.[161] Moral leaders encourage others to take a moral stance on organizational issues.[162] For example programs, visit iSight for 18 examples of good codes of conduct. [163]

Enforcing Ethical Behavior and Whistleblowing

A code of ethics is only as good as its enforcement. If employees engage in unethical behavior, it is critical they be punished in some way with consistency among wrongdoers, which encourages others not to use unethical behavior.[164] You need to be careful not to ignore or be lenient with higher level managers and starting employees because it causes resentment about the treatment and can hurt performance and the organization.[165] Some companies, such as **Mass Mutual**, have fired their CEOs for unethical behavior, partly to send the signal that everyone must follow the code of conduct.

As a means of enforcing ethical behavior, employees should be encouraged to become internal whistleblowers. *Whistleblowing* occurs when employees expose what they believe to be unethical behavior by their fellow employees. At **VW** the emissions scandal went on for years because employees didn't blow the whistle, so VW is working to change the culture of coverups and now encourages whistleblowing.[166] Some organizations have anonymous methods to report violations. Whistleblowing should

begin internally, and information should go up the chain of command. If nothing is done, then the whistleblower can go outside the organization as a last resort.

According to the law and ethics, whistleblowers should not suffer any negative consequences. However, peer pressure is very powerful,[167] and many organizations have a culture of secrecy and silence as they tolerate the unethical behavior without blowing the whistle.[168] It takes courage, but the only way we can stop unethical behavior, including discrimination, is to blow the whistle.

If there is no anonymous whistleblowing system, an option is to get a typed letter/note of the unethical situation to your professor (students cheating), coach or boss (how peers are violating rules), or get it to a higher level if they are the person engaging in the unethical behavior. You can, but don't have to, give specific names of violators. By letting the person in charge know what is happening and how it takes place, they can catch the violators themselves.

The Foreign Corrupt Practices Act (FCPA)

The FCPA law bars U.S.-based or U.S.-listed companies from bribing foreign officials in exchange for business and requires them to keep accurate books and records. But it is sometimes hard to tell the difference between a legitimate business expense and a bribe. Thus, global companies need to clarify the difference in their code of ethics, top managers must set the example, and penalties for illegal behavior must be enforced.

Many countries and MNCs are working to stop corruption. **GE** is known for taking pride in not paying bribes to gain business globally. However, global corruption is a major challenge. **Herbalife Nutrition** agreed to pay $123 million to settle charges that it provided payments to corrupt officials in China and falsified records to cover it up[169] (**Global View**).

The United Nations Global Compact

The **United Nations Global Compact** is the world's largest global sustainability initiative with 13,821 companies from 162 countries. The UN Global Compact is a global movement of sustainable companies and stakeholders. It supports companies to conduct business responsibly by aligning their strategies and operations with "Ten Principles" on human rights, labor, environment, and anticorruption.[170] For more information, visit www.unglobalcompact.org.

JOIN THE DISCUSSION: ETHICS & SOCIAL RESPONSIBILITY 2.3

BRIBES

An American businessperson working in a foreign country complained to a local telephone manager that the technician showed up and asked for a bribe before installing the phone. The businessperson refused, so the telephone worker left without installing the phone. The business person went to the telephone company to complain, but to the person's surprise, the manager told the businessperson the matter would be investigated, for a fee (bribe).
1. Is it ethical and socially responsible to pay bribes?
2. Should the businessperson have paid the bribe to get the phone installed?

Personal Ethics

Ethics begins with you. Good relationships are based on trust that is developed by being honest with, and looking out for, each other. If you are ethical with others, there is a better chance they will be ethical with you and not try to get revenue for your unethical behavior.[171]

We need to give people the benefit of the doubt. But we need to realize that more people will lie to us and gossip about us, cheat us, and steal from us; some people will try to use and manipulate us for their own purpose; and more betrayal is never out of the question.[172]

We also should realize that sometimes people hurt us unconsciously, and it's not personal. So, we need to look for patterns in people's behavior for warning signs of unethical behavior, such as lying, and resolve conflicts when people mistreat us.[173] You will develop the skill of conflict resolution in Chapter 10.

Many large corporations have ethics officers responsible for developing their ethics codes and creating and conducting ethics training. If you are interested in ethics as a career, you may want to consider joining the **Society for Business Ethics** and reading the journal *Business Ethics Quarterly*. For more information, visit its website (https://sbeonline.org).[174]

Applying the Concept 2.5

Ethical Approach

Identify each statement by its approach to making ethical decisions.

   A. Golden Rule
   B. four-way test
   C. stakeholders' approach
   D. discernment and advice
   E. code of ethics
   F. Foreign Corrupt Practices Act (FCPA)

_____ **28.** "Tony, I try to treat people the way I want them to treat me."

_____ **29.** "Clark, what do you think of my decision for handling this situation?"

_____ **30.** "Cindy, you can't offer the Saudi prince a BMW M3 car if he buys our product. It's illegal."

_____ **31.** "Ronnie, I'm a member of Rotary International, so I use its approach when I make decisions."

_____ **32.** "Burk, I follow the guidelines the company gave all of us to use to make sure I'm doing the right thing."

_____ **33.** "Joeline, it's against my religion to lie, so I will not lie for you. Would you want me to lie to you?"

_____ **34.** "Carlos, I try to make sure that everyone affected by my decisions gets a fair deal."

WORK APPLICATION 2.9

Select a business and identify how it manages ethics.

SOCIAL RESPONSIBILITY AND SUSTAINABILITY

LEARNING COMPETENCIES

2.10 Characterize the three levels of social responsibility and explain its relationship with sustainability.

Ethics and social responsibility are closely related, as being socially responsible is going beyond legal and economic obligations.[175] Social responsibility (SR) is often called *corporate social responsibility*, or CSR, an umbrella term for exploring the responsibilities of business and its role in society. CSR is on the increase,[176] and students want to learn about it.[177] In this section, we'll discuss social responsibility to stakeholders, the levels of social responsibility, and sustainability.

What Is Social Responsibility?

Businesses should try to meet society's expectations and therein not contribute to social problems—do no harm.[178] When **Google** started, it had the motto, "Don't be evil." **Social responsibility** *is the conscious effort to operate in a manner that creates a win-win situation for all stakeholders*. Notice we say making a "conscious effort." Why? Again, businesses can't always create a win-win for all their multiple stakeholders, because they often have conflicting objectives.

Should Businesses Be Socially Responsible to Stakeholders?

In the past, there was debate over this question. However, today, the old school view of a single-purpose company that only focuses on making a profit is no longer valid.[179] Managers are still responsible for making a profit for the business owners, but at the same time, they also have a responsibility to benefit society.[180] Business has a responsibility to all its stakeholders.[181] The role of business is to create value for stakeholders.[182] The motivation for CSR is based on moral values to do the right thing as well as to do things right.[183] The trend is for companies to view themselves as a force for the good of society.[184] That is part of the mission and values of **Back Beat Co.** founded by **Isadora Alvarez**: "At BBCo we prioritize the ethical and social responsibility of every aspect of creating, producing and selling clothes, before our profit margins. This includes holding our fabrics and finished quality to higher standards, raising the bar on working conditions for the people sewing our garments together and being environmentally responsible with the materials used to package and get the final product to your door."[185] Profitability can't be ignored completely, and companies should prioritize profitability, because profits make it possible to be socially responsible to all stakeholders.[186]

Does It Pay to Be Socially Responsible?

There are both costs and benefits to CSR,[187] but a business can do well by doing good.[188] Research supports that corporate financial performance (profit) is related to CSR,[189] and it is being called *stakeholder capitalism*.[190] The **Business Roundtable** (BR) supports businesses being socially responsible[191]; shareholders should not always come first.[192] Companies that treat their employees, customers, communities, shareholders, and the environment well outperform those that don't; the top five companies on *Forbes The Just 100* list include **Microsoft**, **Nvidia**, **Apple**, **Intel**, and **Alphabet** (**Google**).[193] Also, the **Dow Jones** created *Sustainability Indexes* to provide investors with information on the long-term future potential of corporate profitability, and two of the criteria are CSR and stakeholder management.[194]

Responsibilities to Stakeholders

Here are some basic examples of how all companies need to be socially responsible to their internal and external environmental stakeholders. Companies must provide *employees* with safe working conditions and with adequate pay and benefits. For *customers*, the company must provide safe products. For *society*, the company should improve quality of life, or at least not destroy the environment. The company must compete fairly with *competitors* and must work with *suppliers* in a cooperative manner. It must abide by the laws and regulations of *government* and strive to provide equal employment opportunities for the *labor force*. The company must provide *shareholders* with a reasonable profit. Keep in mind that although a company has a responsibility to all stakeholders, some matter more than others,[195] including those in the internal environment over those in the external environment.

Social Entrepreneurs and Hybrid Organizations

There is growth in the number of *social entrepreneurs* who combine their concern for social issues with their desire for financial rewards, through *social purpose driven organizations*.[196] Social entrepreneurs create *social enterprises* or hybrid organizations. *Hybrid organizations* pursue a social mission and sustain their operations through commercial activities. They face the challenge of balancing their social and profit objective.[197] Firms send *signals* (observable action) to provide information to stakeholders about its intentions and capabilities.[198]

Blake Mycoskie founded **TOMS** to make money and help solve a social problem of children having no shoes to wear, resulting in blisters, sores, and infections. His business model is "With every pair you purchase, TOMS will give a pair of new shoes to a child in need. One for One." TOMS also gives one-third (33%) of its profits for grassroots good.[199] With a social mission, TOMS received a lot of free publicity, and sales have increased, resulting in Mycoskie making a lot of money for being socially responsible.

Blake Mycoskie opened a TOMS store in Venice, California, to further his buy-one-give-one mission to help provide shoes to children in need.

Jerod Harris/Getty Images for TOMS

Businesses are seeing a shift in consumer demands, particularly from the millennial and Gen Z generations, pushing to influence brands to become more sustainable in their product offerings. Statistics show up to 58% of consumers actually want products with recycled content and 80% of major companies have goals set to meet these demands.[200] For social entrepreneurs **Miranda Wang** and **Jeanny Yao**, the demand for recycled products along with their desire to eliminate plastic waste has fueled their research and business. **Novoloop** has produced a product that can breakdown plastics and in turn upcycle the new material into products for consumer use, such as soles of shoes.

The B Corp

B Corps (benefits corporation) are a type of company that uses the power of business to solve social and environmental problems—it's their mission. B Corp is a title given to companies meeting specific certification requirements. There are 4,075 certified B Corps from 77 countries, including **Ben & Jerry's**, **Cabot**, **Greystone Bakery**, **New Belgium Brewing**, and **Patagonia**. For information on certification requirements, visit www.bcorporation.net.[201] **Donna Morten**, co-founder of **Change Finance**, a B Corp, is focused on changing the impact of the finance industry for underrepresented populations and in support of sustainable investing. Change Fund was instrument in creating a publicly traded fund on the New York Stock Exchange made up of sustainable companies that do not rely on fossil fuels.[202]

CSR Reporting

Virtually all of the *Fortune* 500 companies have formal CSR programs. Corporations are even measuring and assessing how well they meet their social responsibility goals. The measures are commonly

called corporate social performance (CSP).[203] Visit your favorite large corporation's website, and you will most likely find a link stating how the firm engages in CSR; it is even included in most firms' annual reports, often called a *social audit* as its measure of social behavior.

CSR Professionals

There are professionals working in the field of CSR through the executive level. They are responsible for developing the CSR programs and complete the reports. For more information visit the **International Association of Business and Society** (IABS) at https://www.iabs.net. IABS has a scholarly journal *Business & Society*.[204]

Forbes and *Fortune*

Forbes and *Fortune* both help promote CSR and its reporting in these two ways. Forbes has it *Just 100.* The Fortune CEO Initiative is a forum for corporate leaders who are committed to addressing major social problems as part of their core business strategies. Members include well-known CEOs like **Apple**'s **Tim Cook** and lesser-known CEOs, such as **Dambisa Moyo** of **Mildstorm** and **Ayub Khattak** of **Cue Health**.[205]

JOIN THE DISCUSSION: ETHICS & SOCIAL RESPONSIBILITY 2.4

SEX, PROFANITY, AND VIOLENCE

The **Federal Communications Commission** (FCC) has the power to regulate online internet content, television broadcasts, music songs and videos, video games, etc. The **Parents Television Council**, **National Viewers and Listeners Association**, and **Mediawatch-UK** advocates state that the media with violent acts, profanity, and sexual content should not be easily available to children 24/7, such as **TikTok** and **MTV** reality shows.

Another related issue is that some advocates would like to stop or limit the portrayal of girls and women as sex objects and showing violence against them on TV and in movies, in songs and music videos, and in video games. They would like women to be portrayed with more depth as a person, not just as a sex object. Advocates believe watching women portrayed as sex objects leads to a narrow view of the total person. These portrayals are believed to contribute to more negative self-perceptions. Also, it is believed watching violence against women can lead to more violence against them.

However, advocates against regulation (**National Coalition Against Censorship**) don't want censorship at all, on the grounds that it violates free speech. They claim it's up to the parents and adults to restrict viewing TV and movies, listening to music and watching videos, and playing video games they don't approve of.

1. How does media influence societal values? (Consider that many children watch as many as five hours of content per day.)
2. Do movies and TV shows that include sex and violence reflect religious and societal values?
3. Is it ethical and socially responsible to air shows with sexual content, profanity, and violence during hours when children are watching?
4. Is it ethical and socially responsible to portray women as sex objects and to show violence against them?
5. Should the FCC regulate the media and, if so, how far should it go? Should it make networks, music companies, and video game developers tone down the sex and violence or have greater restrictions on content?

Levels of Corporate Social Responsibility

Clearly, in today's society, the question is not whether business should be socially responsible but at what level of CSR the business should operate. Businesses do vary greatly in their social responsibility activities, based on the overall level of CSR at which they decide to operate. Managers can choose to

operate the business at multiple levels of analysis for different issues.[206] The **levels of corporate CSR** *are legal, ethical, and benevolent*. However, a firm can be between levels or be on different levels for different issues. See Figure 2.6 for an illustration of the three levels.

FIGURE 2.6 ■ Levels of Corporate Social Responsibility

3. **Benevolent CSR.** Focus on profitability and helping society through philanthropy.

2. **Ethical CSR.** Focus on profitability and going beyond the law to do what is right, just, and fair.

1. **Legal CSR.** Focus on maximizing profits while obeying the law.

Legal CSR

Legal CSR focuses on maximizing profits while obeying the law. In dealings with market stakeholders, these firms meet all of their legal responsibilities, such as fulfilling contract obligations and providing legally safe products while honoring guarantees and warranties. They do what it takes to beat the competition legally. **Philip Morris** sells cigarettes and e-cigarettes, and **Smith & Wesson** sells guns. These products are legal. But some question the ethics of selling such products.

Ethical CSR

Ethical CSR focuses on profitability and doing what is right, just, and fair. These companies do more than is required in dealing with market stakeholders. They meet reasonable societal expectations and exceed government laws and regulations. **CVS** voluntarily gave up selling legal cigarettes at an estimated cost of $2 billion a year.[207] **Dick's Sporting Goods** voluntarily stopped selling assault weapons.

Benevolent CSR

Benevolent CSR focuses on profitability and helping society through *philanthropy*.[208] Business profits are allocated among stockholders and other stakeholders.[209] These firms are philanthropic, giving gifts of money or other resources to charitable causes—often called giving back and corporate giving.[210] **Tito's** Hand Made Vodka produced and donated more than 1,155 tons of hand sanitizer to communities across the United States during the COVID-19 pandemic.[211] If you are attending a nonprofit college or university, the odds are it receives money or other resources from companies, such as the **Kauffman Foundation**, as part of its CSR programs.

Let's face it: A company can't be benevolent if it is not making a profit—you can't give away profits you don't make, and the money doesn't go to stockholder.[212] **CVS** wouldn't have given up selling cigarettes if it weren't profitable. In addition to giving corporate money, many rich entrepreneurs set up foundations and give their own money, such as the **Bill & Melinda Gates Foundation**. **Facebook** founder **Mark Zuckerberg** plans to give away 99% of his Facebook stock; however, Zuckerberg and his wife **Priscilla Chan** created a limited liability company, the **Chan Zuckerberg Initiative** (CZI),[213] rather than a foundation, which may become the new philanthropic model.[214]

A Situational Approach to CSR

Although firms have an overall guiding commitment to CSR, the level of CSR can and does vary based on individual issues. CSR has been called *enlightened self-interest* because firms will be motivated to engage in CSR activities when the benefits outweigh the costs. However, each issue requires analysis, risk–reward considerations, and knowledge of how the stakeholder relations affect the overall health of the corporation.[215] The challenge is balancing profit and social impact.

What Is Sustainability?

Sustainability is part of CSR.[216] Sustainable development was defined in the **World Commission on Environment and Development**'s 1987 Brundtland report *Our Common Future*. **Sustainability** *is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.*[217]

Societal Expectations

Society expects sustainability and for managers to use resources wisely and responsibly; protect the environment; minimize the amount of air, water, energy, minerals, and other materials used to produce the final goods we consume; recycle and reuse these goods to the extent possible rather than drawing on nature to replenish them; respect nature's calm, tranquility, and beauty; and eliminate toxins that harm people in the workplace and communities.[218] Unfortunately, we face a number of grand challenges threatening a sustainable future of our planet.[219] **Miyoko Schinner**, founder of **Miyoko's Kitchen**, feels business should help support consumers in their quest to be socially responsible: "While activism can identify problems and fight for change, business must be the driver of change by providing viable solutions that make it easy for consumers to empower themselves through their choices and adopt lifestyles that transform the world."[220] Businesses are being created to do just that. Consider **Package Free**, founded by **Lauren Singer**, which has a company mission to support consumers who wish to live a zero waste lifestyle. The company reports it has kept more than 4 million plastic straws, 3 million plastic bags, and 1.5 million nonrecyclable bottles and cups out of landfills since opening.[221]

Natural Resources, Climate Change, and Sustainability

Our natural resources are of critical importance and must be sustained.[222] Thanks to human activity, including global fossil fuels emissions, the world is confronted with climate changes.[223] According to a global scientific consensus, the single largest threat to the health of the planet in the decades to come is climate change.[224] At the current rate of climate change, a study projects global incomes will fall 23% by the end of the century.[225] So as business faces the climate change crisis, it creates an urgent demand for innovative methods to maintain our natural resources.[226] Entrepreneurial innovations are needed to help solve our current and future challenges to our natural resources.[227] Companies such as **Aya Paper Co.**, founded by **SaVonne Anderson**, focus on the use of 100% recycled materials created with 100% renewable green energy. In launching her business, Anderson placed an emphasis on ensuring her business didn't adversely impact issues such as climate change and pollution that also often disproportionally affect communities of color.

What Is the Triple Bottom Line?

Profits are just one element that enables companies' sustainability, so while a company must create wealth, this is not its exclusive purpose.[228] Corporate sustainability requires managers to simultaneously address widely diverging but interconnected concern for the natural environment, social welfare, and economic prosperity of the firm. Moving away from the single bottom line, sustainability managers are focusing on the triple bottom line to balance planet, people, and profits.[229] **Southwest Airlines** uses the triple bottom line slogan: profits, people, planet.[230] Some companies are using triple bottom line accounting. Many corporations are addressing sustainability challenges, and an important part of the reason is that it can pay to do so.[231] **Walmart** is saving billions of dollars in costs by reducing its environmental footprint.[232]

Sustainability Practices and Green Companies

Sustainability issues influence activities in the business world as organizations work to reduce their environmental impacts. A *green company* acts in a way that minimizes damage to the environment. Why have many major MNCs been slow to embrace green management? A major reason is that many MNCs have been short-sighted by focusing on profits, rather than taking advantage of the long-term profits. However, some MNCs get it, and align their sustainability strategies with their business goals.[233]

Microsoft pledged to cut out more carbon emissions than it makes. It will invest $1 billion as part of a wider climate commitment.[234] **Pratt Industries** makes corrugated boxes using 100% recycled paper, saving an estimated 50,000 trees a day, with an estimated company value of $3.4 billion.[235] With the trend toward online shopping and boxed delivery, Pratt is making an environmental impact. **Nestlé** pledged to cut its use of plastic made from fossil fuels by one-third (33%) in five years.[236]

The United Nations Global Compact

In addition to helping businesses compete ethically globally, the UN Global Compact also has "Global Goals for People and Planet." Member states of the United Nations adopted a plan for achieving a better future for all to end extreme poverty, fight inequality and injustice, and protect our planet. At the heart of "Agenda 2030" are the *17 Sustainable Development Goals (SDGs)* which clearly define the world we want—applying to all nations and leaving no one behind.[237] For more information, and to view the 17 SDGs, visit https://www.unglobalcompact.org/sdgs.

Sustainability Management and Careers

Sustainability management is important, and a new corporate title has emerged—chief sustainability officer (CSO). CSOs oversee the corporation's environmental programs. **AT&T**, **DuPont**, and **Google** have a CSO. Many companies, including **Intel**, are giving annual sustainability reports. Companies are helping each other develop sustainability best practices. The **Dow Jones Sustainability Index**, the DJSI, is a family of indexes evaluating the sustainability performance of the largest companies listed on the **Dow Jones Global Total Stock Market Index** and it helps corporations measure their sustainability.[238]

With the increasing opportunities in sustainability, some colleges and universities are offering degree programs in sustainable innovation. However, because it is a new field, specific job descriptions are limited, and many MNCs continue to focus more on traditional management skills.[239] If you are interested in a sustainability career, there is **The Sustainability Consortium** (TSC; https://www.sustainabilityconsortium.org). TSC is a global organization dedicated to improving the sustainability of consumer products. Its mission is to use the best sustainability science to help companies make the everyday products we use better and more sustainable. TSC has more than 100 members and there are more than 2,000 users of TSC tools worldwide.[240]

WORK APPLICATION 2.10

Select a business and identify how it is socially responsible and describe its sustainability practices.

TRENDS AND ISSUES IN MANAGEMENT

LEARNING COMPETENCIES

2.11 Discuss the latest trends and issues impacting ethics and social responsibility in management.

We end each chapter by discussing major trends and issues in management focusing on globalization, ethics, CSR, sustainability, technology, and issues related to DEI.

Globalization, Ethics, CSR, and Sustainability

We have already covered issues related to these trends within the chapter, so we will be brief. Clearly, today's businesses compete in a *global* external environment, and MNCs have to manage their internal resources in each country to match the external stakeholders with different legal systems, languages,

ethical standards, levels of CSR, and concern for sustainability. Think about the complexity of developing relationships and negotiating doing business in more than 100 countries globally with the same organizational culture but with diverse local national cultures. We will discuss managing global business in Chapter 5.

Technology and the Shared Economy

The trend toward living in a *shared economy* will continue. The **Uber** and **Airbnb** business model is being copied by other companies. **SnapGoods** is a takeoff of **Taylor Rental** with individuals lending and borrowing assets. Have you been in a city with bike sharing? China's **Mobike** has more than 100 million registered users with 6 million Mobike connected bikes. It averages 20 million rides a day, and also operates in Singapore and the United Kingdom, and has plans on coming to the United States.[241] The auto industry (including **GM**, **Fiat Chrysler**, and **Toyota**) is planning to put fewer cars in garages and have more car sharing and mobility services.[242] **BlaBlaCar** connects long-distance drives with passengers going the same way; it's a carpooling business.

Diversity, Equity, and Inclusion (DEI)

More and more society is searching for ways to make the world we live in a more diverse and equitable place. Trends indicate more startups and small businesses with a focus on catering to underrepresented populations and in doing so in an ethical and sustainable manner. Dr. Kristian Edwards founded BLK + GRN, a company with a focus on natural, nontoxic beauty products sourced from Black-owned women entrepreneurs. Within the United States, and more so globally, businesses are facing challenges as they work to improve diversity, equity, and inclusion (DEI). DEI is such an important topic that we devote the entire next chapter to it.

CHAPTER SUMMARY

The message of this chapter boils down to this: As a manager, you are going to have to manage the organization's internal environment (including its organizational culture) while interacting with its global external environment to create a win-win situation for stakeholders through ethical and socially responsible leadership while creating long-term sustainability. Is that a big enough challenge for you? A review of the learning competencies follows:

LC 2.1   Explain how internal and external environmental factors affect the internal business environment.

Management refers to the people responsible for an organization's performance. Mission is the organization's purpose or reason for being. The organization has human, physical, financial, and informational resources to accomplish its mission. The systems process is the method of transforming inputs into outputs as the organization accomplishes its mission. Structure refers to the way in which the organization groups its resources to accomplish its mission.

Customers decide what products the business offers, and without customer value, there are no customers or business. *Competitors'* business practices often have to be duplicated in order to maintain customer value. Poor quality inputs from *suppliers* result in poor quality outputs without customer value. Without a qualified *labor force*, products and services will have little or no customer value. *Shareholders*, through an elected board of directors, hire top managers and provide directives for the organization. *Society*, to a great extent, determines what are acceptable business practices and can pressure business for changes. The business must develop new *technologies*, or at least keep up with them, to provide customer value. *Economic* activity affects the organization's ability to provide customer value. For example, inflated prices lead to lower customer value. *Governments* set the rules and regulations that businesses must adhere to.

LC 2.2   **Contrast the classification of businesses in the global village.**

Businesses are classified in three ways. A *domestic business* does business in only one country. An *international company* is based primarily in one country but transacts business in other countries. A *multinational corporation (MNC)* owns operations in two or more countries.

LC 2.3   **Define ethnocentrism.**

Ethnocentrism is regarding one's own ethnic group or culture as superior to others.

LC 2.4   **Describe the three levels of organizational culture and their relationship to each other.**

Level 1 of culture is behavior—the actions employees take. Level 2 is values and beliefs. Values represent the way people believe they ought to behave, and beliefs represent if–then statements. Level 3 is assumptions—values and beliefs that are deeply ingrained as unquestionably true. Values, beliefs, and assumptions provide the operating principles that guide decision making and behavior.

LC 2.5   **State the ethical viewpoints used to define ethics.**

- Utilitarian view states that ethical decisions should be based on creating greater good for society (provide the greater good for the greatest number based on consequences/outcomes of actions).
- Rights view states that ethical decisions should respect and protect individual privileges (right to privacy, free speech).
- Justice view states that ethical decisions should be made to treat everyone fairly and impartially (don't discriminate, which we will discuss in the next chapter).
- *Universalism ethics* states that there is absolute truth or right and wrong behavior, such as honesty.
- *Relativism ethics* states that there is no absolute truth or right or wrong—which contradicts itself by using an absolute.

LC 2.6   **Explain how people justify unethical behavior.**

People commonly use unethical behavior for personal gain or to avoid getting into trouble. People justify their behavior to protect their self-concept by rationalizing that there is a good reason for using the unethical behavior.

LC 2.7   **Name three factors that influence behavior to be ethical or unethical.**

The three factors that influence behavior are *personality traits and attitudes* (some people have more integrity), the *level of moral development* (preconventional, conventional, postconventional), and the *situations* (sometimes there is more incentive to be unethical).

LC 2.8   **Identify four guides to ethical behavior.**

The four guidelines that help ensure ethical behavior are following the *Golden Rule* (don't do anything to anyone that you would not want someone to do to you), answering the four questions of the *four-way test* (Is it the truth? Is it fair to all concerned? Will it build goodwill and friendship? Will it be beneficial to all concerned?), trying to create a win-win situation for all relevant stakeholders so that everyone benefits from the decision with the *stakeholder's approach*, and using *discernment and advice* to consider if the behavior is ethical and asking others whether it is ethical.

LC 2.9   **State three things organizations should do to manage ethics.**

To manage ethics, organizations should develop *codes of ethics* and conduct *training*, top managers should support the code and *lead by example*, and the code should be *enforced* and violators punished by encouraging *whistleblowing*.

LC 2.10 **Characterize the three levels of social responsibility and explain its relationship with sustainability.**

Social responsibility is the conscious effort to operate in a manner that creates a win-win situation for all stakeholders. The three levels of social responsibility include legal (focus on maximizing profits while obeying the law), ethical (focus on profitability and going beyond the law to do what is right, just, and fair), and benevolent (focus on profitability and helping society through philanthropy). Social responsibility and sustainability are related because part of being socially responsible is maintaining or improving the firm's sustainability.

LC 2.11 Discuss the latest trends and issues impacting ethics and social responsibility in management.

Today's businesses compete in a *global* external environment, and MNCs have to manage their internal resources in each country to match the external stakeholders with different legal systems, languages, ethical standards, levels of CSR, and concern for sustainability. The trend toward living in a *shared economy* will continue. Businesses, now more than ever, need to work toward diversity, equity, and inclusion within their organizations.

REVIEW

Key Terms

ethics (p. 62)
ethnocentrism (p. 56)
external environment (p. 52)
global village (p. 56)
internal environment (p. 48)
international company (p. 56)
learning organization (p. 61)
levels of corporate CSR (p. 76)
levels of culture (p. 59)
mission (p. 48)

multinational corporation (MNC) (p. 56)
organizational culture (p. 49)
social responsibility (p. 73)
stakeholders (p. 49)
stakeholders' approach to ethics (p. 69)
sustainability (p. 77)
symbolic leaders (p. 60)
systems process (p. 50)
total quality management (TQM) (p. 50)

KEY TERM REVIEW

Complete each of the following statements using one of this chapter's key terms:

1. The organization's _____ includes the factors that affect the organization's performance from within its boundaries.

2. The organization's _____ is its purpose or reason for being.

3. _____ are people whose interests are affected by organizational behavior

4. An _____ consists of the values, beliefs, and assumptions about appropriate behavior that members of an organization share.

5. The _____ is the technology used to transform inputs into outputs to make and deliver products and services.

6. _____ is a process that involves everyone in an organization focusing on the customer to continually improve product value.

7. The organization's _____ includes the factors outside its boundaries that affect its performance.

8. The _____ refers to companies conducting business worldwide without boundaries.

9. An _____ is based primarily in one country but transacts business in other countries.

10. A _____ has ownership in operations in two or more countries.

11. _____ is regarding one's own ethnic group or culture as superior to others.

12. The three _____ are behavior, values and beliefs, and assumptions.

13. _____ articulate a vision for an organization and reinforce the culture through slogans, symbols, and ceremonies.

14. A _____ has a culture that values sharing knowledge so as to adapt to the changing environment and continuously improve.

15. _____ are the standards of right and wrong that influence behavior.

16. Using the _____, when making decisions, you try to create a win-win situation for all relevant stakeholders so that everyone benefits from the decision.

17. _____ is the conscious effort to operate in a manner that creates a win-win situation for all stakeholders.

18. The _____ are legal, ethical, and benevolent.

19. _____ is meeting the needs of the present without compromising the ability of future generations to meet their own needs.

REVIEW QUESTIONS

1. What are the factors within the internal environment?

2. What are the components of the systems process?

3. How is quality determined, and why do people buy products?

4. What is the external environment?

5. How do you classify businesses in the global village?

6. Why is made in America blurred?

7. What are the six artifacts of organizational culture?

8. What are the levels of culture?

9. What is a learning organization?

10. What are the levels of moral development?

11. How do people justify unethical behavior?

12. What is the stakeholders' approach to ethics?

13. What is social responsibility?

14. What are some ways businesses are going "green"?

COMMUNICATION SKILLS

The following critical-thinking questions can be used for class discussion and/or as written assignments to develop communication skills. Be sure to give complete explanations for all questions.

1. Do you believe that most organizations focus on creating customer value?

2. Do you think that all organizations should use total quality management (TQM)? Explain your answer.

3. What is the relationship among management and mission, resources, the systems process, and structure? Which of these internal factors are ends, and which are means?

4. If you can't control the external environment, why be concerned about it anyway?

5. How does globalization affect your life and that of your family and friends?

6. Should people in the United States make an effort to buy products made in America? If so, how should "made in America" be defined?

7. Which of the six artifacts, or important ways that employees learn about organizational culture, is the most important?

8. What is the difference between a strong and weak organizational culture, and which is preferable?

9. What is symbolic leadership? Is it important?

10. What is a learning organization? Should a manager create one?

11. Do you believe that ethical behavior will pay off in the long run?

12. Do you have your own guide to ethical behavior that you follow now? Will you use one of the guides from the text? If yes, which one and why?

13. Can ethics be taught and learned?

14. Do you believe that companies benefit from being socially responsible? Why or why not?

15. Do you believe that all businesses should go "green"? Why or why not?

CASES

Case 2.1 Novozymes

Danish company Novozymes A/S is not only a leader in biotechnology innovation, but it is also a global leader in sustainable business. The company, which specializes in research, development, and production of industrial enzymes, microorganisms, and biopharmaceutical ingredients, signed on to the United Nations Global Compact in 2000, and by 2011 was cited by the Dow Jones Sustainability Indexes as a "best in class" sustainable business, and was awarded the title of *sustainability leader* in biotechnology for the ninth time.[243]

Novozymes' pledge to uphold the UN Global Compact principles means the company has committed to uphold: (a) protection of human rights; nondiscriminatory labor practices, fair wages, and safe working conditions; (b) the right to collective bargaining, abolition of child labor, and business practices free from corruption, including extortion and bribery; and (c) environmental sustainability.[244] Novozymes adheres to these principles and publicly communicates its progress on these issues as a member of the Global Compact.[245]

Novozymes is headquartered near Copenhagen, Denmark, with operations in Denmark, the United Kingdom, the United States, Canada, China, India, Brazil, and Argentina. Novozymes' affiliates and sales offices work in more than 30 countries, and the company's workforce includes 6,200 employees situated across the world.[246]

Novozyme's new president and CEO, Ester Baiget, joined Novozymes after leading Dow Chemical's Industrial Solutions division to notable achievements as its president and executive leadership team member.[247] Baiget has extensive international business and executive leadership experience. She hails from Spain, where she studied chemical engineering and later earned an MBA from the University of Tarragona in Spain. Baiget is the first female CEO for the firm. She describes her fit with the firm by saying, "Novozymes has a very strong purpose . . . as a person, I have always strived to make a difference, make the world a better place, and help the world grow. I see a very strong match between that and Novozymes."[248]

Novozymes is driven to find natural solutions for industrial issues through innovations involving enzymes and microorganisms. Enzymes, proteins naturally occurring in nature, trigger biochemical reactions in all living organisms from human digestive systems (enzymes convert food to energy) to the natural world (enzymes facilitate decomposition of organic matter). Novozymes locates enzymes and microorganisms in nature and studies ways to adapt them for use in industry to reduce reliance on chemicals and to speed up production processes.[249]

Novozymes was launched in the 2000, through a de-merger from the Danish multinational pharmaceutical company, Novo Nordisk. Novo Nordisk's history with enzyme production began in 1941, with its first enzyme extracted from an animal pancreas for use in leather softener.[250] The company went on to produce enzymes for use in beverage fermentation and in cleaning detergents,

before spinning off this line of business into Novozymes.[251] In its early years, Novozymes grew rapidly through acquisition of various bio agricultural, biotechnology, and life science companies around the world, positioning the company to become a global leader in sustainable business solutions for the bio agricultural industry.[252]

Today, Novozymes is active in more than 40 industries and Novozymes' customers use enzymes in a variety of ways: in concentrated laundry and dishwashing detergents where they remove stains and enable low temperature washing; in the production of biofuel; to improve the quality of bread, beer, and wine; and to increase the nutritional value of animal feed. Novozymes is also an active supplier of microorganisms to industry partners in agriculture, animal health and nutrition, industrial cleaning, and wastewater treatment.

Novozymes invests heavily in its pursuit of natural solutions and innovation is an essential aspect of the firm's culture. The company commits approximately 14% of its revenue to research and development (R&D) and holds more than 6,500 granted or pending patents.[253] In 2019, the European Patent Office named Novozymes the most innovative Danish company and ranked it third in global biotechnology according to the number of European patent applications the company filed in 2018.[254]

Novozymes' solutions permit industry partners to reduce waste and save energy. In fact, the pioneering company is ahead of the curve in terms of its readiness to respond to industry needs with more socially and environmentally responsible solutions than those currently available in the marketplace. Novozymes' CEO explained at the 2021 World Economic Forum, "For biotech and bio-based solutions, the challenge is that standards, market regulations, data demands, tests, and assessments are based on a fossil and chemical paradigm. And that hinders the uptake of bio-based solutions. The technology is ready, solutions are there, and we can accelerate implementation by redesigning the regulation that paves the way for green solutions."[255]

DISCUSSION QUESTIONS

1. What are the key internal environmental factors for Novozymes?

2. What are the key external environmental factors facing Novozymes?

3. Novozymes is a bio-innovator, seeking natural ways that enable businesses to produce less waste and use less energy. The company has grown rapidly through acquisitions of similarly oriented companies in several other countries. What role do you think that R&D plays for a company that provides these types of products? What kind of influence might this have on the company's culture?

4. Explain how Novozymes' bio-based solutions that reduce the use of synthetic chemicals contribute to more environmentally sustainable business practices.

5. What role might the UN Global Compact have in shaping Novozymes' ethical culture? Explain
Case created by Dr. Kelly Nyhoff, Carthage College, Kenosha, Wisconsin.

Case 2.2 Eileen Fischer

"Limiting the harm we do is no longer enough—we must leave the places we touch better than we found them." —*Eileen Fisher*

Clothing designer and retailer, Eileen Fisher, is an industry leader in ethical and sustainable fashion. Eileen Fisher, designer and entrepreneur, launched her women's clothing line in 1984. Today, there are 65 Eileen Fisher stores, 1,000 employees, and the company's revenues are now upward of $500 million.[256] The Eileen Fisher brand is also sold in upscale department stores, such as Nordstrom, Bloomingdales, Saks Fifth Avenue, and Macy's.[257]

Since her start, Eileen Fisher has operated in unconventional ways, and this is no less true of the company today. For her direct employees, Eileen Fisher offers profit sharing and employee part-ownership of the firm. She advocates for what she refers to as "benevolent capitalism" and believes that

capitalism can be a powerful vehicle to improve the lives of people. When it comes to Eileen Fisher designs, both business and casual, the brand features clothing that is unrestrictive, made primarily from organic and natural fabrics, and that is characterized as upscale, minimalistic, and simplistic.[258] The company itself is a standard setter in the realm of ethics, social responsibility, and sustainability, a journey that began as the company committed to use its platform to transform lives and eliminate social injustices and environmental damage that have plagued the global clothing industry.

In 2017, the UK's Ellen MacArthur Foundation released a report, "A New Textiles Economy: Redesigning Fashion's Future," which explored the linear, or "cradle-to-grave," production approach used in the textiles industry, sometimes referred to as a "take-make-dispose" model.[259] This system is characterized by new clothing production that relies on the use of large amounts of nonrenewable resources. These new clothes are sold, used for short periods of time, and are then discarded, with vast amounts of them sent to landfills or incinerated. The report estimated value loss of more than $500 billion per year that results from clothing underuse and failure to recycle.

As the global market for *fast fashion* has expanded, the high costs of this approach to clothing production are garnering more attention: Total annual greenhouse gas emissions from textiles production are estimated to be 1.2 billion tons, surpassing emissions from all international flights and maritime shipping combined, and about 25.5 billion pounds of reusable textiles are thrown away each year.[260] According to the U.S. Environmental Protection Agency, as recently as 2018, the main source of textiles in municipal solid waste is discarded clothing, and only about 13% of clothing created and sold is recycled or repurposed.

In the face of these industry challenges, Eileen Fisher began cultivating ways to introduce a different approach to clothing production, *circular design.* In 2009, the company launched its "Green Eileen" program, underscoring its commitment to social justice and its desire to further pursue and adopt sustainability efforts in the textile industry. The initiative sought to ensure fair working wages and safe working conditions across the company's entire supply chain[261] and stepped up its sustainability efforts through its "Renew" clothing renewal and recycling program. With this program launch, the company started to accept previously worn Eileen Fisher clothing that it would clean or repair and resell at a discounted price, with the goal to reduce textile waste. The adoption of this program also initiated a clothing and textile recycling program for clothes the company found unsuitable for resell. Eileen Fisher offers this "three generational" perspective on the company's clothing and design:

FIRST LIFE—New clothes are using simple and timeless designs made from the highest quality, most sustainable materials the company can find and when they cannot find an existing vendor for what they seek, they work within their supply chain to identify partners willing to explore and innovate with them.

SECOND LIFE—The company receives back gently worn Eileen Fisher clothing, cleans the clothing using an environmentally friendly technique, and prepares the clothing for resale through the company's Renew program. The stated goal in accepting worn Eileen Fisher clothing is to keep it out of a landfill and to find innovative reuses of textile from the clothing that cannot be resold.

THIRD LIFE—When returned Eileen Fisher clothing cannot be resold, Eileen Fisher designers strive to transform these pieces into one-of-a-kind designs or new felted fabric, wall hangings, pillows, or accessories. According to the company, approximately 25% of the clothing it receives is irreparable and is, therefore, transformed.[262]

The success of this initial program inspired the company to go further. In 2015, Eileen Fisher became a Certified B Corporation, and the company also launched its "Vision 2020" initiative. Vision 2020 was created to address six core problems in the clothing manufacturing industry—hazardous color, dyes, and fiber use; fabric and corporate waste; and unethical labor and supply chain practices—and to elevate human rights and sustainability initiatives from a trend to a permanent way of doing business.

Textile production, which employs upward of 75 million people across the globe,[263] has commonly required the handling of hazardous substances and microplastics, which presents health risks to textile workers, those who wear the clothing, and the environment, which is damaged as byproducts of these substances are released when the clothing is washed or discarded.[264]

With the launch of Vision 2020, Eileen Fisher heightened efforts to increase ecofriendly materials (a practice the company had already implemented), intensified efforts to enhance safe color dyeing practices, vowed to recycle more than 1 million pieces of clothing by 2020, and committed to ensuring fair wages and safe working conditions with every partner in the company's value chain.

As a clothing manufacturer and retailer, Eileen Fisher has been arguably at least a decade ahead of its peers.[265] In 2020, the company made public its "Vision 2030" manifesto,[266] which reveals the company's continued deep commitment to three principal areas: (1) Thriving Communities, (2) Future Fibers, and (3) Climate Correction. The plan continues the company's efforts to eliminate its environmental footprint and to advance worker well-being through safety, heightened transparency requirements from supply chain partners to ensure fair wages, and gender pay equality well-being.[267] With these ambitious plans underway, Eileen Fisher offers a clear example of an ethical company striving to put words to action.

DISCUSSION QUESTIONS

1. Which stakeholders are addressed in this case? How does Eileen Fisher practice stakeholder management?

2. Eileen Fisher is a Certified B Corporation. What special requirements are expected of Certified B Corporations? In what way might this be a company artifact at Eileen Fisher? Explain.

3. In what ways does Eileen Fisher match its stated values and beliefs with actions and activities? Explain.

4. Given your answer to question 3, how would you characterize the firm's culture (strong or weak)?

5. Using the Guide to Ethical Behavior, apply one of the guides to this case.

6. Given the evidence provided of Eileen Fisher's business model and activities, at what level of social responsibility would you classify this company?

7. In terms of triple bottom line performance, how would you rate Eileen Fisher's performance? Explain.

CUMULATIVE CASE QUESTIONS

1. Describe how Eileen Fisher may approach each of the management functions as it pertains to sustainability mission and objectives.

2. What role does Eileen Fisher play in her company?

3. Which management theory is most exemplified in this case?

Case created by Dr. Kelly Nyhoff, Carthage College, Kenosha, Wisconsin.

SKILL BUILDER 2.1

Ethics and Whistleblowing

OBJECTIVE
To determine your level of ethics.

SKILLS
The primary skills developed through this exercise are:

1. *Management skill*—interpersonal

2. *AACSB competencies*—ethical understanding and reasoning abilities and reflective thinking skills and application of knowledge

3. *Management function*—leading

For this exercise, first complete Self-Assessment 2.1. This can be found online within the Vantage Courseware.

DISCUSSION QUESTIONS

1. Who is harmed by and who benefits from the unethical behaviors in items 1 through 3?

2. For items 4 through 24, select the three (circle their numbers) you consider the most unethical. Who is harmed by and who benefits from these unethical behaviors?

3. If you observed unethical behavior but didn't report it, why didn't you report the behavior? If you did blow the whistle, what motivated you to do so? What was the result?

4. As a manager, it is your responsibility to uphold ethical behavior. If you know employees are doing any of these unethical behaviors, will you take action to enforce compliance with ethical standards?

5. What can you do to prevent unethical behavior?

6. As part of the class discussion, share any of the other unethical behaviors you observed and listed.

You may be asked to present your answers to the class or share them in small groups in class or online.

APPLY IT

What did I learn from this experience? How will I use this knowledge in the future?

SKILL BUILDER 2.2

The Organizational Environment and Management Practices Analysis

OBJECTIVE

To determine an organization's environment, culture, ethics, social responsibility, and sustainability.

SKILLS

The primary skills developed through this exercise are:

1. Management skill—decision making

2. AACSB competencies—dynamics of the global economy, ethical understanding and reasoning abilities, multicultural and diversity understanding, and application of knowledge

3. Management function—planning

PREPARING FOR SKILL BUILDER 2.2

For this exercise, you will select a specific organization, preferably one you work for or have worked for, and answer the questions as they relate to the business you have selected. You may contact people in the organization to get your answers. Write your answers to all questions.

THE INTERNAL ENVIRONMENT

1. Identify the top managers and briefly discuss their leadership style.

2. State the organization's mission.

3. Identify some of the organization's major resources.

4. Explain the organization's systems process. Discuss how the organization ensures quality and customer value.

5. Identify the organization's structure by listing its major departments.

THE EXTERNAL ENVIRONMENT

In answering this section's questions, be sure to state how each of these external factors affects the organization.

1. Identify the organization's target customers.

2. Identify the organization's major competitors.

3. Identify the organization's major suppliers.

4. What labor force does the organization primarily recruit from?

5. Does the organization have shareholders? Is its stock listed on one of the three major stock exchanges? If yes, which one?

6. How does the organization affect society and vice versa?

7. Describe some of the past, present, and future technologies of the organization's industry. Is the organization a technology leader?

8. Identify the governments that affect the organization. List some of the major laws and regulations affecting the business.

9. Explain how the economy affects the organization.

CULTURE

1. Does the organization use all six artifacts to teach culture? Explain which are used and how.

2. Describe the culture at all three levels. Is it a strong or a weak culture?

3. Is the firm creating a learning organization? Explain why or why not.

ETHICS

1. Does the organization have any guides to ethical behavior, such as a code of ethics? If yes, explain.

2. How does the organization manage ethics? Does it have a code of ethics? If so, what does the code cover? Does top management lead by good ethical example? Are ethical behaviors enforced? If so, how?

SOCIAL RESPONSIBILITY

1. Is the organization socially responsible? If so, how?

2. What is the organization's overall level of CSR?

SUSTAINABILITY

1. Does the organization use any sustainability practices? If yes, explain.

You may be asked to present your answers to the class or share them in small groups or online.

APPLY IT

What did I learn from this experience? How will I use this knowledge in the future?

SKILL BUILDER 2.3

Small Business Corporate Social Responsibility

OBJECTIVE

To debate the value of social responsibility, including sustainability for a small business in your local community.

SKILLS

The primary skills developed through this exercise are:

1. *Management skill*—interpersonal and decision making

2. *AACSB competencies*—dynamics of the global economy, ethical understanding, reasoning abilities, and application of knowledge

3. *Management function*—planning

PREPARING FOR SKILL BUILDER 2.3

1. Select one of the three levels of CSR (1. legal, 2. ethical, 3. benevolent) you believe a small business in your community should operate on.

2. (a) Break into three groups based on the level of CSR you selected. (b) In your group, select a specific small business in your local community. (c) As a group, come up with a list of reasons why the business should operate at that level and why it should not operate at the other two levels. If your group selected benevolent, give specific things the business should do as part of its philanthropy program. (d) Select a spokesperson to present your list of answers to step c.

CONDUCTING THE EXERCISE IN CLASS OR ONLINE

1. The spokesperson from each group presents the list of answers to the class. Present from level 1 to 2 to 3.

2. After each presentation, or at the end of all three, the professor may lead a class debate, as other group members may challenge the level selected or specific issues listed, ask for further discussion, or give a summary.

APPLY IT

What did I learn from this experience? How will I use this knowledge in the future?