Photo by Astrid Stawiarz/Getty Images for Fashion Hong Kong

2 ETHICS AND SOCIAL RESPONSIBILITY

CHAPTER LEARNING OBJECTIVES

After studying this chapter, you should be able to:

2.1 Compare and contrast various ethical viewpoints and the impact each has on decision-making.

2.2 Develop an example for each stage of moral development.

2.3 State how managers influence an organization's ethical climate.

2.4 Explain the factors and challenges in making an ethical decision.

2.5 Describe the importance of corporate social responsibility (CSR).

2.6 Generate examples of the types of corporate social responsibility (CSR).

2.7 Compare and contrast the alternative views of corporate social responsibility (CSR).

2.8 Discuss how the future of ethics and social responsibility will be an important part of the management planning process.

AVEDA: A CASE STUDY IN ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

For more than 40 years, Aveda, a producer and seller of plant-based (vegan) hair and skin care products, has been a company that seeks to live out a mission that embodies corporate social responsibility (CSR). Aveda's founder states, "Our mission at Aveda is to care for the world we live in, from the products we make to the ways in which we give back to society. At Aveda, we strive to set an example for environmental leadership and responsibility, not just in the world of beauty, but around the world."[1]

The United Nations Industrial Development Organization (UNIDO) describes corporate social responsibility as "a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders."[2] Interestingly, Aveda began its socially responsible pursuits long before the concept of *corporate social responsibility* first appeared in management literature. In acting upon its mission, Aveda has built a reputation for excellence, quality, and transparency regarding the composition of their products, their life cycle, and their impact on the environment.[3]

Aveda was founded in 1978 by Horst Rechelbacher. An Austrian by birth with a mother who was an herbalist, Rechelbacher was already an acclaimed hairstylist by the age of 20. While traveling to the United States for a hairstyling competition, Rechelbacher was injured in a car accident.[4] To pay his mounting medical bills, he began working as a stylist in Minneapolis and subsequently took up residence there. Evidencing his entrepreneurial flair, Rechelbacher soon opened a European hair salon in Minneapolis and, over time, expanded this business to include several additional successful salons. Although he was still in his 20s, Rechelbacher found himself burned out and began his journey back to good health by turning to the herbal remedies of his mother and making some lifestyle changes.[5] In 1970, Rechelbacher's quest for wellness took him to India for a retreat,[6] where he discovered the Ayurvedic principles that ultimately shaped the foundation for Aveda, the product line and business he launched less than 10 years later.[7]

Ayurveda, which originated in India, is an ancient system of natural medicine based on the idea that imbalance and stress in a person's consciousness can cause disease. Ayurvedic principles promote a holistic perspective of the person within their environment, and Ayurveda advocates an approach to healing that both improves health and increases harmony and balance among the body, mind, spirit, and environment.[8] Ayurvedic treatments include the use of herbs, plants, oils, and spices.[9] Rechelbacher named his business *Aveda*, derived from

Ayurveda, which is a Sanskrit word meaning "the science of life."[10] He began to develop products comprising natural ingredients and tirelessly advanced the holistic perspective that these products should cause no harm to either person or environment.

As Rechelbacher refined Aveda, he served also as an early advocate for corporate social responsibility. He was one of three founders of an organization called Business for Social Responsibility, which promoted responsible and sustainable business.[11] In 1989, Aveda was also the first business to endorse the Coalition for Environmentally Responsible Economies (CERES), a nonprofit organization comprising investors and environmental, religious, and public interest groups that promotes environmentally, socially, and financially sound investment policies.[12] A pioneer of the social responsibility movement, Rechelbacher imbued his Aveda salons and product line with the conscious-living ethos that has come to define Aveda.

Though Rechelbacher sold Aveda to Estée Lauder in 1997 for $300 million,[13] the Aveda mission has lived on. Today, more than 40 years later, Aveda continues to be a flagship company in the arena of socially responsible business practices, serving as a benchmark for other companies that seek to incorporate environmentally sustainable and socially responsible business practices. Aveda is a certified B corporation,[14] a difficult-to-achieve standard[15] indicating that, when it comes to employee benefits, charitable giving, supply chain practices, and input materials, Aveda meets high standards of performance, accountability, and transparency that have been verified by outside auditors.[16]

Further evidencing the company's commitment to responsible business practices, Aveda products are 100% vegan, and, on average, its hair care products are 90% naturally derived from plants, nonpetroleum minerals, and/or water, in accordance with the ISO 16128 standard.[17] The International Organization for Standardization (ISO) is an independent, nongovernmental entity that develops standards to ensure the quality, safety, and efficiency of products, services, and systems.[18] The ISO 16128 standard defines how companies should numerically determine the degree to which their cosmetic ingredients and finished cosmetic products have natural and organic origins, enabling comparisons between individual raw materials and finished products.[19]

Aveda was also the first beauty company to use 100% post-consumer recycled PET in packaging.[20] By 2023, more than 85% of Aveda's skin care and hair care products were sold in PET bottles and jars containing 100% post-consumer recycled plastic.[21]

Aveda also received Leaping Bunny approval in 2022,[22] certifying that the company and its suppliers fulfill the Corporate Standard of Compassion for Animals and refrain from animal testing at all stages in product development. The Leaping Bunny credential has very strict criteria, and all Leaping Bunny companies are subject to independent audits.[23]

In efforts to implement socially responsible practices broadly, Aveda has also been an innovator. Not only did the company begin using blockchain technology in 2021 to provide transparency in its supply chain,[24] but Aveda was also the first beauty product manufacturer to rely on renewable energy sources such as solar and wind energy for its primary manufacturing plants.[25] In addition, the company has been recognized by the State of Minnesota as an MNSTAR company, signifying that Aveda has successfully worked with both employees and the Minnesota Occupational Safety and Health Administration (MNOSHA) to identify and implement workplace best practices that go beyond basic regulatory guidelines to prevent job-related illnesses and injuries.[26]

Discussion Questions

1. Working with a basic definition of business ethics as a set of practices and policies that provide companies with a moral framework for decision-making, how would you characterize Aveda's business ethics?
2. Building on the first question, what moral principles does Aveda seem to be endorsing through its policies?

3. Aveda's performance is audited and evaluated by outside parties in numerous ways. How might these outside reviewers support Aveda's claims of being a socially responsible company? Would you recommend that a company use these types of practices to support CSR claims?

Case created by Dr. Kelly Nyhoff, University of Wisconsin-Madison.

WHAT ROLE DO ETHICS AND SOCIAL RESPONSIBILITY PLAY IN EFFECTIVE MANAGEMENT?

This chapter will provide you and your colleagues with a lot of things to think about in terms of decision-making and behaviors you choose individually, as a department, and as an organization. Ethics are often a consideration across all parts of an organization, including accounting, engineering, human resources, sales, marketing, management, leadership, and many more. Think about your role if you were in the position of manager. If you know that rewarding employees with extra things like Free Lunch Friday will cause them to stay late on Thursday to finish a project that will make you look good, is that manipulation, or slightly unethical, or is it part of being a good manager? What about having the opportunity to transfer a problem employee to another division because they know about the skills of the employee but not the large amount of time you spend making sure the employee puts in all their work hours, meets deadlines, is polite to other employees, or even, maybe, is respectful to you? Do you fist-bump your assistant manager, knowing this person will be gone, or do you go to the other manager and explain the problems, knowing there is a chance they will decide not to transfer the person into their department?

In fact, it can be argued that nearly every decision you make as a person or professional has some level of ethical dilemma attached to it, from getting extra change at the store (it's the clerk's fault) to giving overtime work and pay to your favorite employee (they need the money) to going out after work to hang with the team while your stay-at-home significant other is home juggling your kids' homework, dinner, and bedtimes (it was a long day; I deserve it). Just sit and think for a minute about some recent decisions you've made, large or small, and you will probably feel an ethical twinge or two about your final choice.

Therein lies the fickle part about ethics, though. Who's right? People weigh in on ethics philosophically and personally and from a purely business perspective.

Edward Hennessy, retired chairman and CEO of AlliedSignal Inc., says, "Ethics must begin at the top of an organization. It is a leadership issue and the chief executive must set the example."[27]

This means that in any type of leadership position, you are the person setting the tone for the team. While you might think being ethical isn't that difficult, now consider this quote from Aldo Leopold: "Ethical behavior is doing the right thing when no one else is watching—even when doing the wrong thing is legal."[28]

So to be clear, in the world of ethics, if something is the right thing to do and you know it, but even the wrong thing is legal, which do you choose? One that saves the company and/or saves your job and is perfectly legal, or the one that is the "right" thing to do?

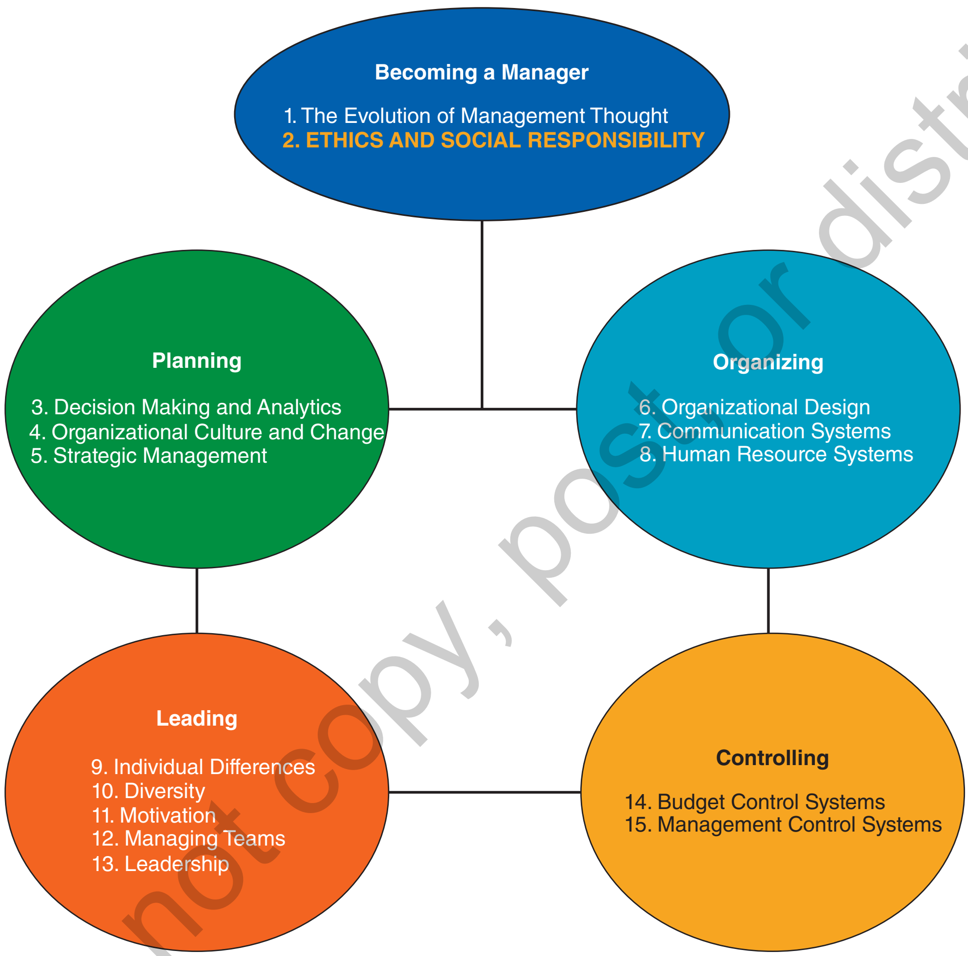
Finally, think about this quote from a person who will be very familiar to most of you—Steve Jobs: "Great things in business are never done by one person. They're done by a team of people."[29]

This is ironic for many reasons, and if you want to read an enjoyable book that is full of ethical decision-making choices, try *Steve Jobs*, by Walter Isaacson. In the quote above, Jobs attributes great things in business to teams, but in the book he is very clear that he is the brains behind all things Apple. He is also well known for treating people poorly, stealing ideas from other companies (literally right off their desks), and his overall arrogance.

Hopefully, the examples above provide you with a good starting perspective on the importance, and inconsistency, of ethics in the workplace and even the world. Further, they introduce you to a few critical perspectives associated with working within a system in which the code of ethical conduct was designed by someone else and may differ from your own personal ethical code. To assist you in developing your ethical standards and moral development, this chapter provides information on building these skills and on how you can help your organization have a strong ethical climate (Figure 2.1). It will also help you make ethical decisions by highlighting important points to consider when making them.

Another section of this chapter will talk about corporate social responsibility (Figure 2.1). History is lined with a path of organizations that have made poor ethical decisions that have resulted in the downfall of the organization and even the loss of life. Some organizations are working hard to avoid these catastrophes by putting their ethical standards in writing so there is a consistent message to members of their organization and transparency with their outside stakeholders.

FIGURE 2.1 ■ Textbook Organization



WHAT DO PEOPLE THINK OF WHEN THEY THINK OF ETHICS?

LEARNING OBJECTIVE

2.1 Compare and contrast various ethical viewpoints and the impact each has on decision-making.

There were enough quotes in the beginning of this chapter to give you a good introductory idea of what **ethics** means, but the definition is pretty simple: the rules or principles that define right and wrong. Now comes the challenging part: What is right and wrong?

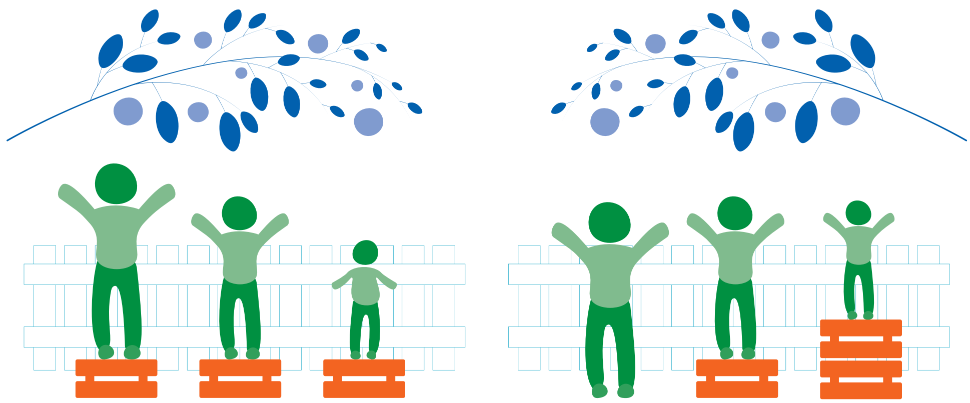
This question and the study of ethics is an age-old project. From Plato in Ancient Greece to John Locke in 17th-century England, philosophers have contemplated ethics and the concept of right and wrong. There are three historical schools of ethical thought: virtue ethics, consequentialist ethics, and deontological or duty-based ethics.[30] Each of these approaches conceptualizes ethics differently when it comes to ethical behavior and decision-making.

- ***Virtue ethics***. Emphasizes the role of personal values (such as integrity) in decision-making. A manager who integrates their personally held value of integrity into decisions would likely ask themselves what they believe the most honest, sincere, and principled solution would be and make a decision based on this information.
- ***Consequentialist ethics***. Revolves around belief in would be considered *the morally right thing to do* as determined by the consequences that would come about as a result of doing that thing.[31] One of the most classic examples of a consequentialist ethical dilemma is the question "If you could go back in time and kill baby Hitler, would you do so?" A person who frames their ethical mindset around consequentialist ethics would likely answer yes, as a result of the positive consequences they anticipate the world would experience as a result of their having committed this murder. In a managerial example, a manager who generally agrees that lying is wrong may choose to lie to one of their employees if they are confident that this lie will help to save the person's job. The consequence rationalizes the lie.
- ***Deontological or duty-based ethics.*** Revolves around the belief that doing right is based solely on what a series of rules state rather than based on the consequences of an action. Under this ethic, some acts are deemed necessary, or part of one's duty, regardless of the consequences of the act. One example of deontological ethics in practice is laws in some U.S. states dictating that committing any three felony offenses will trigger long prison sentence of between 10 years to life (depending on the state).[32] No matter what the consequences of that third strike are, the violator will face the harsh offense. These laws are known as the "three strikes" rule, following the baseball analogy of "three strikes and you're out" (in this case, out of society).

These more classic viewpoints have given rise to what are considered more contemporary views on ethics: the utilitarian view, the rights view, and the theory of justice view.

- ***Utilitarian view*** (utilitarianism). Basing decisions on what will do the most good for the most people. A person who believes the "ends justify the means" is advocating the utilitarian approach. When using this approach, the decision-maker tries to maximize the satisfaction of the most people.[33]
- ***Rights view***. The belief that humans are entitled to a certain number of rights based solely on their humanity. The Second World War marked a watershed in the history of rights. In the wake of the massive civilian suffering caused during the war—much of it knowingly and even intentionally inflicted—there was a resurgence of interest in individual rights in many areas. The United Nations General Assembly drafted the Universal Declaration of Human Rights, which contained 30 articles protecting individuals. These include the right to appeal a decision that affects you, the right to free consent, the right to privacy, the right to freedom of conscience (i.e., not having to do something that violates your moral standards), the right to free speech, and the right to due process.[34] An organizational example of due process is allowing employees to have a voice in decisions that affect them.
- ***Theory of justice***. The idea that fairness is equivalent to justice. In following this approach, decision-makers are guided by equity, fairness, and impartiality.[35] For example, rewards should be distributed fairly by compensating individuals based on their efforts and not on arbitrary factors. Here, it is important to distinguish equity from equality: While equality refers to treating everyone in exactly the same manner, equity refers to ensuring justice and fair decisions—even those that may result in different outcomes for different people (Figure 2.2).

FIGURE 2.2 ■ Illustration of Equality Versus Equity



Ethics as a Holistic Approach

Each school of ethics provides a different framework for understanding the concept, but none is all-encompassing. Comparing ethics to health can be a helpful analogy. For example, how can you achieve a healthy life? Through a good diet, exercise, and discipline. All of these elements are vital but inadequate by themselves. Now imagine someone asked, "How do you run a successful business?" You might name a variety of components for success: excellent management and training, a strong human resources department, a high-quality product or service, a skilled sales team, and a commitment to bringing in new business. There is no singular component that works on its own; each is essential yet insufficient by itself. Bringing all of these components together, you can run a successful business. Behaving ethically, much like having a thriving business, requires a holistic mindset. In most cases, you will need to consider all three schools of ethics to make ethical decisions.

As a manager, you might find yourself gravitating toward one ethical approach, but remember that each has its limits. Instead of relying on one philosophy or school of thought exclusively, you'll likely have to mix and match different approaches to exercise ethical judgment across different contexts. For example, as a manager, sometimes you might face situations that require you to think critically about your personal integrity (virtue ethics). Other times, you may be in a scenario that requires you to focus on doing more good than harm (consequential ethics and utilitarian view), or you might have to think about how to fairly distribute a budgeted salary increase across your subordinates (theory of justice approach). Each manager has their own style and may be inclined to favor one school over the other, but each is an essential tool for making ethical choices.

Two ethical schools of thought consider the possibility that ethical decision-making may differ depending on the situation: integrated social contracts theory and moral relativism.

- ***Integrated social contracts theory***. Recognizes that there may be a known and accepted way of doing things around here. "Here" may refer to a particular company's norms, an industry norm, or at a broader level, a cultural norm. Consider, for example, questions that arise in Sheila M. Puffer and Daniel J. McCarthy's (1998) description of the common way to secure a favor in Russia (such as access to a decision-maker) by exchanging it for something of value to an influential individual.[36] Should representatives of companies from other countries participate in this practice while doing business in Russia? Is there a cutoff amount after which such a transaction might be considered bribery?
- *Theory of **moral relativism***. Implies that there may be situational considerations when making an ethical decision but goes a bit further to suggest that there may not exist any truly universal ethical principles.

In addition to the philosophies, questions, and characteristics noted above, there is also an **ethics of care** component that focuses on the need to maintain relationships and connections to others in making decisions.[37] In following the ethics of care, a decision-maker may consider the damage that might be done to a relationship if a decision is made that the other person feels is unfair. A powerful example of decision-making based on the ethics of care would be arriving at a building that is on fire and choosing to rescue your sister (someone you care about) from the building instead of her neighbor, who is a scientist on the brink of saving thousands of lives with her latest invention.[38] Electing to save the scientist would likely be the more utilitarian choice, but, as this example demonstrates, we don't always make decisions based solely on their utility.

Most individuals follow one or more of the ethical philosophies discussed and consider the ethics of care but the utilitarian approach is the most common among business leaders.[39] Despite the best of intentions, however, leaders do succumb to external forces such as economic conditions, scarce resources, and competition, and make decisions that are unethical.[40] Research shows that excessively focusing on the desired outcome (i.e., career advancement and monetary gain) results in selfish and unethical behavior.[41]

When evaluating the ethics of a decision, managers may apply these different considerations by asking themselves questions that may trigger various ways of thought: *Is it right? Is it fair? Who benefits? Who gets hurt (and how much do they hurt as a result of this decision?). What would you tell a younger sibling or a mentee to do in this situation? If the details of this decision were to be made public, would you feel comfortable? How does it feel?*

Some unethical decisions may be unintended. Managers are people. And people often have **bounded ethicality**: a tendency toward systematic and predictable ethical errors due to their limited capacity to process information.[42] Bounded ethicality is not visible, but it hinders decision-making. For example, a manager may not select the best members to include in a new team if they feel rushed to design the team in time to meet a pending company deadline. Or perhaps a manager knows that the firm has a very limited amount of money available for annual raises and subconsciously rates an employee's performance assessment lower than they otherwise would. Research has shown that people may even lie to get more money while feeling honest about it.[43] Under conditions of bounded ethicality, people make unethical decisions they are unaware of and then engage in self-justification to explain their behavior. Leaders may lack awareness about ethical violations (bounded awareness), and they must also develop systems that uncover violations in their organization.[44]

Utilitarianism may seem like a "fair" way to make decisions, but Wells Fargo provides us with an excellent example of the effects of utilitarianism in business. Employees were pressured to increase the sales of extra services offered by the bank. If they didn't meet sales quotas, they were forced to work longer hours and were even threatened with being fired from their jobs. What did they do to increase sales? After all, sales were good for business, so the ends justified the means, right? According to one account of the scandal, they engaged in a practice known as "pinning," in which

> a Wells Fargo banker obtains a debit card number, and personally sets the PIN, often to 0000, without customer authorization. "Pinning" permits a banker to enroll a customer in online banking, for which the banker would receive a sales credit. To bypass computer prompts requiring customer contact information, bankers impersonated the customer online, and input false generic email addresses such as 1234@wellsfargo.com, noname@wellsfargo.com, or none@wellsfargo.com to ensure that the transaction is completed, and that the customer remains unaware of the unauthorized activity.[45]

Wells Fargo employees were trying to meet their sales quotas and avoid being fired. But they were eventually caught, and over 5,000 were terminated. It all added up: Employees opened 1,534,280 deposit accounts that might not have been authorized and that might have been funded through simulated funding, or transferring funds from consumers' existing accounts without their knowledge or consent. Roughly 85,000 of those accounts incurred about $2 million in fees, which Wells Fargo refunded. Consumers were outraged when they learned they had been paying extra fees, and a congressional investigation followed.

Table 2.1 summarizes the ethical philosophies and schools of thought discussed here.

TABLE 2.1 ■ Ethical Philosophies and Schools of Thought

Ethical Principle	Key Questions	Key Principles
Utilitarian View	Will most people experience positive effects from this choice? Who will be hurt by this decision? (How many and to what extent?)	Practicality; the greatest good for the greatest number of people
Rights View	What legitimate rights are each of the involved parties entitled to? Will my choice respect everyone's rights?	Respecting and protecting individual liberties and rights; appreciation for human dignity[46]
Theory of Justice View	How can I remain impartial and treat all parties fairly? Are there any universal principles and rules that should govern this decision?	Justice; fairness; equity; impartiality
Virtue Ethics	How would a virtuous person act in this situation? Would this action strengthen moral character?	Personal integrity; honesty; fairness
Consequentialist Ethics	Would this action make the world a better place? Will the impact of this decision be more positive or negative?	Altruism; compassion; considering the greatest good for the greatest number of people (as with a utilitarian view)
Deontological Ethics	Does this action treat every stakeholder with respect and dignity in all situations? Is the action something that everyone should do?	Autonomy; rights; freedom
Ethics of Care	How can I best show this person that I care about them and their situation? Who do I care most about? How could my current or future personal relationship(s) be affected by a decision that I make?	Communicating care; social relationships and their maintenance; nurture
Integrated Social Contracts	How are things typically done around here? What is the company, industry, or societal norm for this type of situation?	Contextual expectations; cultural sensitivity
Moral Relativism	Is there a set of moral or ethical principles that should be applied universally? Is there always one best answer to a given ethical problem? Should I consider something ethical in one instance when I have deemed it unethical in another situation?	Situational consideration; relativity

To understand ethics a little better, it's helpful to find out how people develop their morals. There will be many times in your life that you will think somebody is unethical or making an unethical decision, so the next section explains how people acquire their moral compass. It will help you see that there are several levels and stages of moral development, and not all people fall in the same category.

KOHLBERG'S STAGES OF MORAL DEVELOPMENT

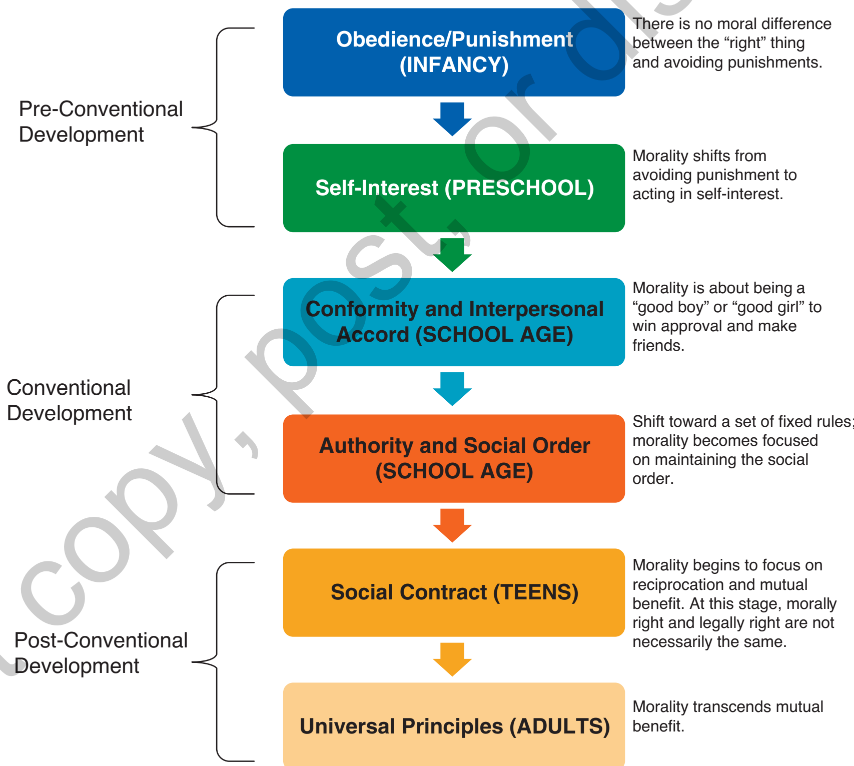
LEARNING OBJECTIVE

2.2 Develop an example for each stage of moral development.

In an attempt to develop an organized way of understanding how people rationalize their decision-making, Lawrence Kohlberg (1958) defined six stages of **moral development** based on Jean Piaget's theory of the moral judgment for children (1932). The theory focuses on the *thinking process* that occurs when somebody is deciding if a behavior is right or wrong and how this process changes as we develop from children to adults. Kohlberg focuses on *how they decide to respond* to a moral dilemma, not what they actually decide or actually do.[47]

Kohlberg's theory of moral development includes six stages of moral development separated into three levels (see Figure 2.3):

FIGURE 2.3 ■ Kohlberg's Stages of Moral Development



Source: Psychology Notes HQ. (2019, July 25). *Kohlberg's stages of moral development.* https://www.psychologynoteshq.com/kohlbergstheory/.

Level 1: Pre-conventional Level—Conforming to Authority

At the **pre-conventional reasoning** level, typically experienced from infancy to preschool, morality is externally controlled. Children initially learn to conform to rules imposed by authority figures in order to avoid punishment or receive rewards. This evolves as children begin to make choices based on what they can get away with or what is personally satisfying. Level 1 has two stages—obedience/punishment and self-interest—which center on securing their own benefit. This is their idea of morality. They begin by avoiding punishment and quickly learn that they may secure other benefits by pleasing others. No other ethical concepts are available to children at this young age.

Level 2: Conventional Level—Conforming to Social Rules

The **conventional reasoning** level is typically experienced throughout school age. At this level, conformity to social rules remains important to the individual. However, the emphasis shifts from self-interest to relationships with other people and social systems. At this level, young people strive to support rules that are set forth by others such as parents, peers, and the government in order to win their approval or to maintain social order.

According to Kohlberg, the conventional level is the stage at which children learn about rules and authority. They learn there are certain "conventions" that govern how they should and should not behave, and learn to obey them. At this stage, no distinction is drawn between moral principles and legal principles. What is right is what is handed down by authority, and disobeying the rules is always, by definition, "bad."

This level is split into two stages: conformity (where children are interested in pleasing others and securing their favor) and authority and social order (where children begin to understand that moral decision-making is important toward contributing positively to society and maintaining social order). Kohlberg believed many people stay in this stage of moral reasoning for their whole lives, deriving moral principles from social or religious authority figures and never thinking about morality for themselves.

Level 3: Post-conventional or Principled Level—Toward Mutual and Universal Benefit

Finally, at the **post-conventional reasoning** level (typically reached as young adults begin to mature, along with their education and experiences), the individual moves beyond the perspective of their own society. Morality is defined in terms of abstract principles and values that apply to all situations and societies. People at this level begin to take the perspective of all individuals, and the two stages here are social contract (reciprocity and mutual benefit) and universal principles (which transcend beyond mutual benefit toward a concept of a greater good for all).

Young adults vary quite significantly in their rate of moral development. Those who reach the post-conventional level have learned there is a difference between what is right and wrong from a moral perspective and what is right and wrong according to the rules. Although they often overlap, there are still times when breaking a rule is the right thing to do. While this level is in some ways related to the conventional "social order" stage, it is more universal and nonauthoritarian in nature.[48]

Assessing the Stages

You might be wondering how these stages are assessed. Kohlberg developed an interview to determine the level of a person's moral reasoning by asking them what they would do in particular situations with ethical dilemmas. For example, a classic case was used in early research, in which a man's wife needs a drug that could save her life, but the only druggist who has the drug is charging a high price the man cannot afford. Should the man steal the drug to save his dying wife? What would you do? And what does your answer say about where you are in the levels and stages and how you arrived there, or how you can best advance to the next stage?

After Kohlberg's initial work, researchers developed business scenarios to determine the level of moral development of managers. Consider the following scenario:

> Evelyn worked for an automotive steel casting company. She was part of a small group asked to investigate the cause of an operating problem that had developed in the wheel castings of a new luxury automobile and to make recommendations for its improvement. The problem did not directly create an unsafe condition, but it did lead to irritating sounds. The Vice President of Engineering told the group that he was certain that the problem was due to tensile stress in the castings.
>
> Evelyn and a lab technician conducted tests and found conclusive evidence that the problem was not tensile stress. As Evelyn began work on other possible explanations of the problem,

she was told the problem had been solved. A report prepared by Evelyn's boss strongly supported the tensile strength hypothesis. All of the data points from Evelyn's experiments had been changed to fit the curves, and some of the points which were far from where the theory would predict had been omitted. The report "proved" that tensile stress was responsible for the problem.

Should Evelyn contradict her boss's report? Is it important that people do everything they can to make the truth known? The data in the boss's report are false. Would it be morally wrong for Evelyn to fail to contradict the report?[49]

Research has shown that the stage of moral reasoning influences a manager's ethical decision-making.[50] A meta-analysis (research combining many past research findings) over 30 years with over 3,100 respondents[51] found that moral development was negatively related to unethical choices (that is, the higher your development, the more likely you are to make more ethical decisions).

For example, financial adviser Bernie Madoff ended up stealing a great deal from his investors; however, he started small by taking only a few thousand dollars. In the end, Madoff stole more than $18 billion.[52] It could be argued that Madoff was at the pre-conventional stage, making efforts to secure the greatest benefit for himself. He stopped stealing only when he got caught.

Criticisms of Kohlberg's Theory of Moral Development

While Kohlberg's theory is popular, cross-cultural psychologists (those who practice psychology in cultures other than America and Western Europe) have begun to assess it in recent years. A recent article criticizes Kohlberg's theory as overrelying on an assumption that people will behave rationally; this article demonstrates that there are many examples where people may ultimately behave in ways where their actions do not match their judgments.[53] Other critics argue that Kohlberg may simply be presenting his own morals as psychological fact. They contend that his theory is problematic. They believe it aligns too closely with and may simply be another way to explain postmodern Western liberal ideas about justice and morality and implies that certain forms of moral reasoning are superior to others.

Some studies also poke holes in Kohlberg's theory. Some clinical data indicate that school-age children can begin to grasp concepts that according to Kohlberg's theory don't happen until adolescence or adulthood. For instance, kids as young as six can actually begin to understand the social contract (e.g., universal ethical principles like "no hitting"). These studies seem to suggest that, perhaps, "Kohlberg's stages of moral development describe not a one-way process of psychological growth for an individual, but a categorization of different types of moral values, which may be developed and prioritized differently for different individuals and moral cultures."[54]

ETHICAL CLIMATE

LEARNING OBJECTIVE

2.3 State how managers influence an organization's ethical climate.

Up to this point, we have been discussing ethics mostly from an individual perspective, considering how different people process ethical considerations based on their own preferences, codes of integrity, values, personal convictions, and understanding of a situation.

While Kohlberg outlined how all people are not at the same level of moral development, it is now important to remember that management, ethics, and environment are not separate issues but rather intertwined. Now we begin to look at additional influences on managerial ethics that may come from other **environmental influences**, or the internal and external forces that affect decisions made by organizations and their managers.

External influences are forces coming from outside the organization that affect decisions made by organizations and their managers. Examples are societal and industry norms, which were briefly introduced in consideration of the integrated social contracts perspective of ethics. Other external factors may include influence from external groups that have an interest in the way a decision is made or the outcomes of the decision. Companies themselves have several **internal influences** to consider as well. These internal influences are forces coming from within the organization that affect decisions made by organizations and their managers. These include the founder's ideas about how the company should make decisions (this influence continues to persist far after the founder leaves the company), the priorities of the current organizational leaders, the characteristics of the firm's current employees, and the organizational culture. Another internal influence on organizational culture that is worth noting is the firm's reward allocation system. Choosing to reward certain achievements or behaviors can have consequences, and organizational leaders must understand the types of ethical choices employees will be making as they work toward these achievements.

In the past 20 years, there has been an increase in attention to ethics and morality in the study of organizations—from specific companies like Enron (discussed in detail later in the chapter) and Wells Fargo to whole industries like mortgage, banking, and finance. Researchers have responded to what seems to be an increase in unethical behaviors by working on new theories that incorporate a moral component and place followers first.

These theories discuss the ethical role that managers and leaders can take and how an ethical organization creates a positive ethical climate that works to serve all stakeholders, not just the goals of the executives. These emerging theories are a good example of how research responds to the current challenges organizations face and how researchers generate new knowledge to guide managers and leaders. Structural considerations can also influence ethical decision-making. In Chapter 6 we will describe formal and informal organizational structures. Well-thought-out structural design can minimize uncertainty about how to go about making a decision when faced with an ethical dilemma. The ways in which firms organize work and with whom employees work can influence ethical choices. Consider, for example, the influence your teammates may have had on your own choices in a past situation.

Five Types of Ethical Climates

The **ethical climate** within an organization reflects its orientation toward ethical decision-making. This climate has clear implications for encouraging ethical behavior in organizations. Since the late 1980s, there has been a stream of research on ethical climates—and organizations are showing great interest in improving in this area. Organizations have five distinct types of ethical climates.[55] Learning what the current climate is constitutes the first crucial step toward making the climate as appropriate and effective as it can be. These ethical climates are summarized in Table 2.2 and are reviewed below.

TABLE 2.2 ■ Ethical Climates

Ethical Climate	Employee Perceptions
Instrumental	"People are expected to do anything to further the company's interests."
Caring	"In this company, people look out for each other's good."
Independence	"In this company, people are expected to follow their own personal and moral beliefs."
Law and Code	"The first consideration is whether a decision violates any law."
Rules	"It is very important here to strictly follow the company's rules and procedures."

Source: Adapted from Cullen, J. B., Victor, B., & Stephens, C. (1989). An ethical weather report: Assessing the organization's ethical climate. *Organizational Dynamics, 18*(2), 50–62, p. 56.

Perceptions are reality: It is important to recognize that to understand what a company's ethical climate looks like, we need to consider the combination of different perspectives that various employees have about the company or the department in which they work. Employees perceiving an **instrumental ethical climate** understand that they are encouraged to make decisions that serve the organization's interests or provide personal benefits,[56] potentially at the cost of their other ethical concerns. [57]

At the core of the **caring ethical climate** are altruism and compassion. Employees most frequently prefer to work in a caring climate[58] because they feel that empathy dominates decision-making. They know that ethical concern for others permeates the workplace environment, from the policies and best practices to the strategies the organization uses to do business.

The **independence ethical climate** prioritizes individualism. In this climate, one of the defining principles is that people should be able to act on their personal moral convictions in order to make ethical choices. It presumes that each person has arrived at their convictions through careful moral consideration.[59]

In a **law and code ethical climate**, decision-making is based on an external code of ethics—typically the law or an established professional code of conduct. Managers make choices based on whatever this code mandates. It is also presumed that individuals' ethics are mostly dictated by this code.[60]

In a **rules ethical climate**, company rules and regulations guide decision-making. This climate is similar to the law and code climate, but the rules are internally defined (by the company) rather than externally defined (by professional or societal standards).

A review of 42 studies[61] of ethical climate found that the instrumental climate is negatively related to job satisfaction and organization commitment but the caring climate is positively related to these outcomes. The law and code climate is related to satisfaction but not commitment. Thus, ethical climates strongly influence employee satisfaction and loyalty.

Toward an Organizational Culture of Ethics

In addition to establishing an organizational culture of ethics, managers must serve as ethical role models if they would like the spirit of ethics to permeate their divisions and organizations with the strength of organizational culture. Kidder provides a nine-step checklist a manager may use to determine if they are being ethical in their dealings with others.[62] It is important to note that this list is about managers being ethical in their dealings with others, not just about managers making ethical decisions.

1. Recognize that there is a moral issue.
2. Determine the actor (and the players) in the issue.
3. Gather the facts.
4. Test for right versus wrong using four criteria:
    - Is it legal?
    - Does it feel right at the gut level?
    - Would you want to see this on the front page?
    - What would your mother/family think?
5. Test for right versus right (when both options seem moral, e.g., truth vs. loyalty; hard decisions).
6. Apply the appropriate ethical principles (e.g., utilitarian, rights, justice).
7. Ask: Is there a third way through the dilemma?
8. Make the decision.
9. Revisit and reflect.

In addition to encouraging leaders to be ethical, organizations have implemented policies and programs that foster ethical behavior. These include ethics codes, policies, and training. In some cases, these programs are required by law, but in other cases they result from top management's commitment to ethical behavior.[63] Laboratory and field studies support the idea that knowledge of what constitutes moral behavior results in ethical actions.[64] Education and training appear to be one of the keys to ensuring moral behavior in organizations. The goal is that these policies and training programs result in an organizational culture of ethics in which ethical behavior becomes the norm and employees behave in a manner consistent with moral values.

The previous discussion of moral development assumes that ethical behavior is due to the morality of individual decision-makers. Yet a major debate on what determines ethical or unethical behavior is known as "bad apples versus bad barrel."[65] Is ethical/unethical behavior a direct result of the personal traits of a person acting alone? Or, rather, is ethical/unethical behavior more heavily dependent on organizational culture or climate and norms in a society,[66] or a combination of both? Next is a review of the influence of organizational climate on ethical behavior.

Ethical Leadership

The study of ethics and morality in leadership will continue to be of interest to researchers as it continues to demonstrate relationships between ethical leadership and employee well-being and performance. Ethical decision-making is important to the practice of good management and leadership, and contemporary theories of ethical decision-making address morality as a key consideration.

Research on **ethical leadership** has found four moral components:

- *Moral sensitivity* involves recognizing that our behavior impacts others.
- *Moral judgment* involves determining the right decision.
- *Moral motivation* is having the need to do the right thing.
- *Moral action* is the result of principled reasoning, which leads to ethical behavior.[67]

Development of new approaches will continue to appear in textbooks, as they do in this one, for the edification of students and instructors. In Chapter 13, the chapter on leadership, we will describe several ethical considerations that organizational leaders are often faced with. Additionally, you will probably be involved in corporate training programs designed to sensitize the next generation of managers, update you on the challenging ethical aspects of leadership, and, ideally, improve leadership practice.

FACT OR FICTION?

MISCONCEPTIONS ABOUT ETHICAL LEADERSHIP

Business schools are encouraged to form ethical leaders through discussion of business ethics in the classroom. However, there are some misunderstandings about what constitutes ethical leadership. Ethics scholar Michael E. Brown dispels five common misunderstandings.

Misconception #1: Ethical leaders should not concern themselves with what others think as long as they are doing the right thing.

An old saying goes, "What is popular is not always right and what is right is not always popular." Conventional wisdom often suggests that external conceptions of ethics are not as valuable as one's inner moral compass. But is this good advice for ethical leaders? Should they really make ethical decisions based simply on the courage of their convictions? Studies indicate this advice might not be so sound after all. It can be dangerous and unwise to ignore external perceptions, or others' views, of your decision-making.

Misconception #2: Rules and policies are enough. Employees don't need ethical guidance.

Some leaders think that rules and regulations are enough to get their employees to behave ethically. Others presume that nothing they can do will change their employees' ethical mindset. In reality, employees do need guidance from ethical leaders. Studies routinely show that employee behavior is heavily influenced by the people around them. They consider other people's expectations in order to determine appropriate workplace conduct. Providing strong ethical guidance shows employees how to behave.

Misconception #3: There is no obligation to worry about ethics in business as long as no one breaks the law.

Some employers think legality and ethics are the same thing. They mistakenly think their responsibility ends with ensuring that employees obey the law, and therefore that they might ignore ethics. This is a problematic assumption. Business law shouldn't be the sole focus; employees should also be required to consider business ethics.

Misconception #4: Business ethics is an oxymoron.

Due to the popularity of the *Nice guys finish last* mentality, many people worry that behaving ethically is a liability for businesses. Recently, a popular business book even suggested that leaders act like Machiavelli, a historical figure known for being cutthroat and relentless. Despite the many depictions of ruthless businesspeople in popular culture, data demonstrate that ethical leadership is actually associated with positive business outcomes. When people associate your business with trust and integrity, it is an asset—not a liability.

Misconception #5: Leaders' personal conduct is irrelevant to their professional reputations.

Leaders should take care to keep their evaluation of employees focused on job-related performance, but what about *leaders'* private lives? Business ethics research shows that employees do, in fact, take leaders' personal lives into account when they judge ethical leadership. They believe a leader's personal morality can be related to their professional integrity. Questionable ethical conduct in their personal lives can cast doubt on leaders' professional capabilities. Leaders should be mindful of their public visibility and take care to avoid scandals or poor choices that could reflect badly on their organizations.

Discussion Questions

1. Do you agree that employees need ethical guidance from leaders? Explain.
2. Explain the differences between ethical decision-making and obeying the law. Why is this distinction important?
3. In the business world, a lot of people believe that ethics compromises organizational effectiveness. Explain whether you agree or disagree with this position.
4. Should what a person does in their personal life matter in terms of how they are seen as an ethical leader? Provide an example of a leader who did something questionable in their personal life and explain how this affected their ability to lead.

Source: Adapted from Brown, M. E. (2007). Misconceptions of ethical leadership: How to avoid potential pitfalls. *Organizational Dynamics, 36*(2), 140–155.

Ethical leadership has been found to be positively related to work-group-level ethical behavior and negatively related to relationship conflict among coworkers.[68] A review of the research on ethical leadership concludes, "The research quite consistently shows that if employees indicate that their leaders are ethical and fair role models who communicate and reward ethical behavior, there is less deviance and more cooperative behavior, and employees perform better and are more willing to both expend effort and report problems to management."[69]

If leaders at the top of the organization are viewed as ethical by their followers, then ethics had a cascading effect throughout the organization; lower-level employees also view their manager as ethical.[70] Thus, ethical leadership at the top of an organization has a trickle-down effect to lower organizational levels. Perhaps even more surprising, this cascading effect can even reach outside the organization: A company's strong ethical climate has been shown to positively affect the ways in which independent salespeople do their work.[71]

The moral component is emerging as a key aspect of contemporary leadership theories. Based on both research and practical applications, you can see how leaders and managers can greatly influence ethics and decision-making processes within the organization through their actions and behaviors. They can also inspire others by following guidelines for creating awareness and encouraging ethical decisions[72]:

1. Talk "ethics"—make it a part of your workplace culture.
2. Publish your guiding principles.
3. Select, train, and retain employees who behave ethically.
4. Make ethical behavior part of business and performance reviews.
5. Work on increasing moral sensitivity from as many different perspectives as possible.
6. Attach consequences to desired behavior and measure its occurrence.
7. Ensure that structure and resources exist to monitor and enforce commitment to an ethical climate.
8. Invite external review by an ethics audit team.
9. Establish a set of criteria to evaluate your own actions and share those with others.
10. Encourage, model, and help others establish a method to discuss actions and increase alertness to ethical issues in everyday decisions.

Following these guidelines should increase awareness of ethics in your organization and help avoid decision traps leading to compromised ethics. Many successful companies follow these standards. For example, consider number two. If you Google *organizational ethics and corporate social responsibility*, you will find that a number of organizations publish their guiding principles. National Public Radio (NPR) is a prime example, spelling out its standards of journalism explicitly on its public website. The statement spells out ethical values, from transparency and accountability to accuracy in reporting.[73]

The point is that managers *can* do something to positively influence and improve ethics in the workplace. Ethical training for managers and all organizational decision-makers can help. The 10 suggestions above can be applied not only to ongoing organizational transactions among employees or between the company and clients but also to things like selection practices for new employees and performance appraisals for existing employees.

ETHICAL DECISION-MAKING

LEARNING OBJECTIVE

2.4 Explain the factors and challenges in making an ethical decision.

The discussions in the beginning of the chapter about ethics and morals have probably seemed fairly calm, normal, and perhaps even just a good, commonsense way to approach things. What you know about dealing with people based on what you have learned so far, though, is that their responses are not always the same as yours and that people have different morals and can be at different stages in moral development.

This section deals with how to make an ethical decision, but also the pushback you will receive from people based on their sense of justice, that is, their set of ethics and morals. You see, when people feel an event or decision is "unfair," their feelings come from their sense of what is ethical and moral. In 2018 and 2019, the large automobile company General Motors (GM) announced several large rounds of employee layoffs as they significantly transitioned their business model to one they felt would best benefit the company and stockholders. This decision impacted many of their workers, who were no longer needed due to their skill set or geographic location.[74] This sparked **moral outrage**, which is a severe reaction (including strong emotions such as anger and resentment) to a perceived injustice, such as losing one's job.[75] One study found that employees even engaged in sabotage when they perceived situations to be unfair.[76]

Several years following those large-scale layoffs, the company credits those decisions with "saving $4 billion to $4.5 billion annually and paving the way for the investments that we need to make in the cost structure to produce EVs," according to CFO Paul Jacobson.[77]

The interesting takeaway for managers and leaders is that while the employees were outraged at the decision and announcement made by GM's CEO, Mary Barra, stock prices rose on the day she made the largest announcement. Many times managers are asked to make the "tough" decisions that will not make people happy, but the job is to run a successful organization.[78]

This is a good example of an ethical dilemma. Barra, as the CEO, purportedly has one job—to maximize shareholder wealth. That does not mean she is in favor of laying off employees, but it does show that accomplishing your job often comes at the cost of angering some, or many, others not in your position.

Barra's decisions and implementation also show a great deal of **moral courage**, or a personal fortitude for facing ethical issues, challenges, and dilemmas and pursuing virtuous action. Another definition of moral courage is an ability to consistently make decisions in light of what is good for others, despite the potential for personal risk.[79]

In this situation, Barra needed to make decisions to benefit many (utilitarianism), not just her employees; she chose her course of action to set up the company (and the tens of thousands of other employees) for long-term success, avoid bankruptcy, and protect other stakeholders, such as the environment, as well. Her vision and decision-making also brought enormous pressure from outside entities, including threats from government officials.[80]

CEO of GM, Mary Barra, addresses workers in March 2019 to announce GM's investment in electric and self-driving vehicles.

Photo by Bill Pugliano/Getty Images

Now that you have an example of what's at stake when you're trying to make an ethical decision, you should also know that many ethical decision-making models have been developed over the years to illustrate the ethical decision-making process and the personal and situational characteristics involved.

It should be noted that these models do not tell you what you ought to do when faced with an ethical dilemma but rather the steps the authors suggest you follow when faced with an ethical dilemma. A decision-making guide is simply that, a guide, and an ethical decisionmaking framework adds an ethical component to the decision. As such, these guides are descriptive ("Here is how to test your decision") rather than prescriptive ("Here is what you should do").[81]

One of the goals of this book is to provide you with contemporary solutions to the challenges of management, so you will be presented with several decision-making models to choose from. Some are focused on organizational decision-making (covered later in the chapter), while some, like the PLUS decision-making model discussed below, are focused on individual management decision-making and consider where your own personal characteristics might be a factor in the final decision.

The **PLUS decision-making model**[82] is from the Ethics Decision Making Center in Arlington, Virginia, and was designed to account for the way many organizations do business today, such as by empowering employees to make their own decisions, keeping open lines of communication, and always keeping in mind the values of the organization.

The PLUS Decision-Making Model

Employee decision-making must account for two essential truths:

1. Every employee makes decisions while doing their job, because organizations would fail if they were not empowered to do so.
2. For employees to be confident in their decision-making skills, they must test decisions against the organization's policies, values, and regulations as well as their own ideas about what is correct and fair.

The conventional model used in most ethics programs was failing employees. In fact, an estimated 1 in 4 employees could not implement it. Organizations needed a new decision-making process carefully constructed to be:

- aligned with current theories about decision-making and ethics
- clear and simple enough for all employees to incorporate into their decision-making process
- descriptive instead of prescriptive (i.e., describing things as they occur naturally rather than telling people how they *should* make decisions)

The six-step decision-making process below combines decision-making models used in ethics training and problem-solving training.

Step 1: Find and define the problem. Why is the decision necessary, and what is the desired outcome? To figure out if there is a problem, compare the desired expectations to reality. A problem can be defined as the difference between what you want and what you get. How you define a problem determines how you identify its causes and search for solutions.

For example, imagine that your company owns an old office building downtown. Your tenants tell you their employees hate the elevator. Employees are constantly complaining and extremely frustrated about the long delay in getting an elevator at rush hour. Your tenants want to know how to solve this problem.

As with just about any problem, there are a number of ways to define the solution. When this question was posed to more than 200 focus groups during a training exercise, they identified the following solutions:

- Offer flexible hours so all of the employees aren't trying to use the elevator at once.
- Get faster elevators to shorten the travel time.
- Get bigger elevators so each can carry more people per trip.
- Install elevator banks so an elevator stops only at specified floors.

- Improve elevator controls.
- Install more elevators to increase capacity.
- Perform better maintenance so elevators work better.
- Discourage use of the elevators and instead recommend the stairs so fewer people use the elevators.

Look closely at each solution. What was the definition of the problem? If you examine each alternative, you will see that several different definitions of the problem must have existed. If the solution is "flexible hours," the problem must be "too many people arrive at work at once." "Faster elevators" means the problem is elevators that are too slow. "Bigger elevators" means the elevators don't hold enough people. "More elevators" means there aren't enough elevators.

The actual decision-makers in this case did something that none of the focus groups suggested. They defined the problem differently.

Problem: People have to wait, and that annoys them.

Solution: Make the wait less frustrating by playing music in the lobby.

It worked. Workers stopped complaining. This solution arose from the specific problem that the decision-makers defined.

Step 2: Identify available alternative solutions to the problem. Don't limit yourself. The most obvious solution or the solution that worked once before isn't always the most effective. Be open to novel and more efficient ideas. Consider between three to five alternatives for every problem to avoid getting trapped in a false-binary choice between two options or having so many options that you become overwhelmed.

Step 3: Evaluate the identified alternatives. What are the pros and cons of each alternative you listed in Step 2? Usually, there isn't one single solution that is markedly better than the others. Rather, there are typically small differences in value among all the choices, so you need to think critically about your choices. Try to distinguish between fact-based pros and cons and feelings-based pros and cons. Make an evaluation using evidence rather than hunches or gut feelings.

Step 4: Make the decision. If you are working independently, simply choose a solution. If you are working with a group, present Steps 1 to 3 to your team members and reach a consensus.

Step 5: Implement the decision. Lou Gerstner (the former CEO of IBM) said that "there are no more prizes for predicting rain. There are only prizes for building arks."[83] Picking the best alternative isn't the same as putting the solution into practice.

Step 6: Evaluate the decision. Did you fix the problem? Was the improvement miniscule or dramatic? Did you create any new problems?

Ethics Filters (Here's the "PLUS")

The decision-making process above is generic. It does not account for ethics. Let's now apply some "filters" to the above process. They will help you spot ethical concerns and give them proper consideration. By simplifying the ethical decision-making process, you'll dramatically increase the utility of the ethics filters process.

To make it easy to remember, understand, and apply these ethics filters, use the mnemonic PLUS.

- *P* = *Policies.* Does this approach fit into my company's established policies, procedures, and guidelines?
- *L* = *Legal.* Does this approach obey applicable laws and comply with relevant regulations?
- *U* = *Universal.* Does this approach align with the universal principles my company and society have in place?
- *S* = *Self.* Does this approach meet my own personal criteria for what is fair, correct, and acceptable?

The PLUS decision-making model requires effective communication to employees. They must understand the company's policies, applicable laws and regulations, and universal values. They should also be empowered to use their individual sense of ethics.

The PLUS filters should be applied to Steps 1, 3, and 6 of the decision process.

- **Step 1: Define the problem PLUS identify ethical issues.** Does the existing situation present any PLUS problems? Is there a problem with policy, law, the organization's values, or my own sense of ethics?
- **Step 2: Identify available alternative solutions to the problem.**
- **Step 3: Evaluate the identified alternatives PLUS assess their ethical impact.** Will the alternative I am considering resolve the PLUS problems? Will it cause any new PLUS problems? Am I making any ethical tradeoffs? Are they acceptable when I consider PLUS?
- **Step 4: Make the decision.**
- **Step 5: Implement the decision.**
- **Step 6: Evaluate the decision PLUS take inventory of any new ethical issues.** Does the solution fix the PLUS concerns identified in Step 1?[84]

The PLUS filters enable you to consider decisions ethically and holistically. Applying the PLUS filters gives employees a simple, straightforward framework for making decisions that carefully consider policy, law, universal values set by the organization, and the employee's own individual sense of ethics. Good decision-making requires extensive questioning of the organization and the individual.[85] When applying the PLUS model, one must also consider ethical and moral intensity. Personal bias, beliefs, experiences, and character traits can influence how an employee uses the PLUS filters as well as the final outcome of the ethical decision.

Moral Intensity

Moral intensity, "the extent of issue-related moral imperative in a situation,"[86] has six factors[87]:

1. Magnitude of consequences is the total harm or benefit derived from an ethical decision.
2. Social consensus is agreement on whether the behavior is bad or good.
3. Probability of effect is the chance that something will happen that results in harm to others.
4. Temporal immediacy is the time between an act and the consequences the act produces.
5. Proximity of effect is the social, psychological, cultural, or physical distance of a decision-maker from those affected by their decisions.
6. Concentration of effect is how much an act affects the average person.

So far we have concentrated on individuals and their moral development, tools to help them make the best ethical decisions they can, and some of the challenges that come along with that. The next section is going to discuss another contemporary issue—that of organizational ethics in decision-making and corporate social responsibility.

THE IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY

LEARNING OBJECTIVE	
2.5	State the importance of corporate social responsibility (CSR).

Corporate social responsibility (CSR) has gotten to the point where it is no longer considered an exceptional practice but rather one that is expected of organizations. Organizations spend considerable time and resources engaging in socially responsible activities. Yet, as these activities might be somewhat outside the organization's main line of business, companies often underpublicize their good works. Therefore, their high costs (time, money, labor, etc.) are often not fully utilized to work in the company's best interests. This section will introduce learners to the stakeholder perspective, to different forms of CSR, and to how CSR relates to business strategy.

A question often asked about ethics and morals at the organizational level is, "How could that have happened?" Perhaps the best example of a complete meltdown resulting from substandard, or no-standard, ethical behavior is what happened to a company called Enron. The intricate and nearly unbelievable story of how Enron's leadership team brought down their own company as well as tens of thousands of employees and investors makes for an interesting movie. Sarcastically titled *The Smartest Guys in the Room*, the movie traces the arrogance and complete lack of ethics of two companies: Enron and Arthur Andersen.

In 2001, while declaring unheard-of stock and profit margin increases, the leadership at Enron and their auditors from Arthur Andersen were frantically moving real and fake money around to hide the fact that they were a rapidly sinking ship. Even up until the last minute, Enron's CEO was convincingly encouraging his employees to purchase Enron stock for their entire retirement portfolios. You can imagine what happened to their investments.

Corporations provide many examples of unethical decisions. Volkswagen was long admired for ethical business practices and protecting the environment, but all of this ended in 2015 when the United States Environmental Protection Agency slapped Volkswagen with a notice of violation of the Clean Air Act. The auto manufacturer had been caught installing "defeat devices" in 482,000 of its diesel vehicles in the United States (11 million worldwide). These cleverly engineered devices detected when a car was being driven under emissions test conditions and only at that point turned on emission controls. They switched off during normal driving, meaning that fuel performance improved, but up to 40 times more nitrous oxide was released.[88] A global scandal followed, and the company was seen as a villain by the media. Its reputation was ruined and its stock price tanked, losing almost a third of its market value in less than a week. A few days after the scandal, CEO Martin Winterkorn resigned under threat of a criminal investigation.[89]

Despite the severe consequences of this scandal, the fact that these types of decisions almost certainly *are* made in business tells us that leaders have probably been in unimaginable moral quandaries. Businesses want to improve profitability by touting high performance but at the same time must comply with environmental laws.

These examples highlight the importance of **corporate social responsibility**. Corporate social responsibility (CSR) has been defined as entailing

> four kinds of social responsibilities: Economic, legal, ethical and philanthropic. Furthermore, these four categories or components of CSR might be depicted as a pyramid. All of these kinds of responsibilities have always existed to some extent, but it has only been in recent years that ethical and philanthropic functions have taken a significant place.[90]

In other words, "the CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen."[91]

But CSR is so much more than just that. What does it truly mean to be a good corporate citizen? Consider this definition of CSR by Philip Kotler and Nancy Lee in their book *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*: "Corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources."[92]

Let's break down this definition a bit:

- **Community** is a collective of people who have common characteristics, such as a shared livelihood, profession, or interests, or those living within close proximity to one another.
- **Well-being** is experiencing positive levels of comfort; happiness; mental, physical, emotional, and economic health; and other aspects of lifestyle (note: *corporate well-being* refers to

corporate programs and policies that contribute positively toward employee wellness at work). Well-being may be defined differently by various members of the community.

- **Discretionary** is an important distinction, as it suggests that CSR initiatives are at the discretion of the company—leaders have a choice as to whether or not to engage in CSR and consider their options consciously.
- **Corporate resources** are materials and other tangible and intangible assets owned by the company, including physical resources (e.g., plant, vehicles, machinery), intellectual property (e.g., patents, copyrights, branding), human resources (e.g., knowledge workers, a skilled sales force), and financial resources (e.g., cash, lines of credit).
- **Commitment** suggests that, once put in place, the company and its agents—those working on behalf of the company—have an obligation to the CSR initiatives to which they have agreed to engage; the relevance of commitment reinforces why it is so important that companies choose CSR initiatives that align with their business and brand image.

A Change in Perspective

A hard-and-fast rule that still remains in many people's minds about business, and one that was mentioned earlier in the GM case, is that the CEO's only job is a fiduciary one—to maximize shareholder wealth.

Researchers at Michigan State University, while examining some of the organizational failures of the last two decades, decided it would be better for CEOs to understand that "the heart of a good business is not profits or best-of-breed products and services. Those are results from what lies at the core of good business: good ethics."[93]

In this chapter, a long line of cases are mentioned in which unethical behavior has derailed companies across industries. "Few areas cause more harm in the business community than when businesses lack an ethical foundation," said Joseph Potchen, an attorney and visiting professor at Michigan State University's Eli Broad College of Business, where he teaches a graduate-level course on business ethics. "Most people would agree that having good ethics is important. However, it's when people lose sight of proper ethical behavior that the problems and issues begin."[94]

As a result, there is a continued need for business leaders in the United States and around the world to uphold the highest ethical standards.

"Despite the negative headlines, the reality is that people still look to top executives and key managers in businesses for leadership and guidance," Potchen said.[95]

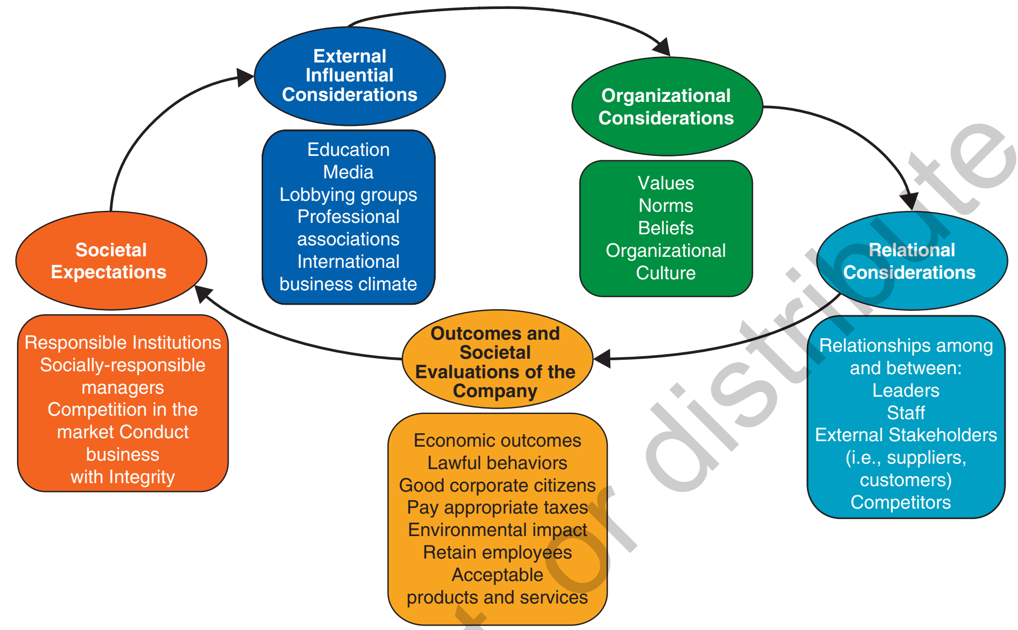
Two good ways for managers and leaders to heed Potchen's suggestions are (1) to focus on stakeholders rather than shareholders and (2) to be concerned with the balanced perspective of the **triple bottom line (TBL)**, otherwise known as the **3Ps**—people, planet, and profit—rather than just the monetary bottom line.

Stakeholders are any people who can affect or be affected by the organization's actions, objectives, and policies. Examples of key stakeholders are creditors, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions, and the community from which the business draws its resources.

The TBL is an accounting framework that incorporates three dimensions of performance: social, environmental, and financial. This differs from traditional reporting frameworks in that it includes ecological (or environmental) and social measures that can be difficult to assign appropriate means of measurement. The trick to this method is how to measure the 3Ps: people, planet, and profits. Profit is relatively easy, but how do you measure an organization's decision-making impact on people and the planet?[96] Here lies yet another challenge for the new batch of managers taking over organizations.

Figure 2.4 outlines expectations and considerations of several organizational stakeholders that influence the ethical decisions a firm chooses to make and the ways in which the firm's outcomes are evaluated. Societal expectations are the general expectations we have of companies and the markets in which they compete. Other considerations include such influential external factors as the business climate, the way the company is portrayed in the media, and the impact of lobbying groups and professional associations. Organizational features such as values, norms, beliefs, and organizational culture provide an internal influence on the types of ethical and socially responsible decisions a company makes.

FIGURE 2.4 ■ A Model of Business Ethics and Responsibility



Svensson, G., & Wood, G. (2008). A model of business ethics. *Journal of Business Ethics, 77*(3), 303–322.

Relational considerations include the quality of relationships between members of the firm and the firm's relationships with relevant external parties. All of these considerations influence the decisions made and the ultimate outcomes the firm produces. These outcomes and the way they are interpreted by internal and external parties return back to influence societal expectations of firms and the markets in which they do business.

Introduction to the Stakeholder Perspective

Companies want to do well. And they want to do good. But the question remains: Who should we do good for? Many managers think about CSR in terms of accountability. But accountable to whom? To ourselves? Our community? Our loved ones and family? Our customer? To society as a whole? So the question becomes more situated: We want to do good, but do good for whom? And at what cost?

One of the first considerations is the difference between a stakeholder and a shareholder. A **shareholder** is an owner (in this case, someone who holds shares—often in the form of stocks—of a company). The ownership or shareholder perspective is a common one for organizations to take. Whether they are publicly traded, as in the case of a company that sells shares of stock, or privately held by a small number of individuals, companies ultimately want to do well by their owners.

And this is a legitimate perspective to take. Milton Friedman and his contemporaries build a case that corporations do good by the community by being profitable and continuing to stay in business. We will explore Milton Friedman's critical perspective on CSR later in this chapter. One criticism of this perspective, however, is that it tends to be focused on the short term. Taking the ownership perspective leads us to make decisions on a quarterly basis—thinking about and taking action on things based largely on what's been happening over the past three months. In a publicly traded organization, for instance, when the past three months' earnings don't meet shareholder expectations, stockholders often show their disappointment by selling off shares, a move that ultimately devalues the company. So as you can see, managers may be pressured to make short-term improvements, perhaps by siderailing some longer-term initiatives.

The *stakeholder* perspective, on the other hand, accounts for anybody involved or otherwise affected by the operations of a business. Taking a stakeholder perspective accounts for community members, suppliers, the family members of employees, and anyone who may be affected by the way in which a company contributes to society. The stakeholder perspective is a longer-term position that centers on ensuring that the needs of the community are met, thereby helping to promote a strong and vibrant society and economy, within which the company may operate for many years to come.

TYPES OF CSR AND ENGAGING STAKEHOLDERS

LEARNING OBJECTIVE

2.6 Generate examples of the types of corporate social responsibility (CSR).

There are many ways for-profit companies can get involved in CSR: They can set up their own foundations; they can build relationships with existing ones; they can consider how they want to treat their employees and others with whom they want to interact. They will likely do something that not only sounds good and does good but also is associated with and aligns with the type of business they're involved in and the image they have been working to build.

CSR initiatives come in many forms. One common type of CSR initiative is related to **supporting a cause**—also referred to as cause marketing—in which a company puts its support (financial, reputation, knowledge, etc.) behind an existing external cause campaign. Examples include the environment, animal rights, community and economic development, community health initiatives, and the provision of vocational training to underrepresented or marginalized groups of people. Supporting causes can be helpful because of the positive reputation a company gains—both among its external community and among its employees—by being affiliated with a particular cause.

Another form of corporate support involves **contributions of corporate resources**, in which a company provides cash, grants, products, or other contributions toward a worthwhile cause. Offering grants provides an opportunity for firms to contribute to purposes that are ultimately important to and in the best interests of the company, such as when an engineering company offers grants to people who might not traditionally have as much access to STEM (science, technology, engineering, and mathematics) training. Doing so trains the grant recipients in skills needed by the engineering company and thus could allow the company access to a more diverse and well-trained workforce once the grant recipients complete their grant-funded training. A company may also be able to provide some unique service to their community, such as by donating their technical expertise pro bono to nonprofit organizations that are doing important work in the community.

In-kind contributions are a popular form of corporate support in which a company donates products or services they produce and have on hand to charity events they would like to support. A lot of companies also support **employee volunteering**, which is when employees are paid as though they were going to a typical day of work but are instead allowed to donate their time to a volunteer initiative. A popular example is Habitat for Humanity; on a particular assigned day, employees of an organization sponsoring a partnership with this nonprofit can, instead of going to work, go help build a house. An advantage of this type of corporate support is that the employees really get to be hands-on and to connect to the community members who benefit from this good work.

One more example is that of providing access to the company's **distribution channels**, the network of people, organizations, and modes of transportation a product makes its way through as it leaves the company to reach the customer. An example here would be Walmart or another big company offering to utilize its well-established trucking routes to help transport medical or food items to families in need following a natural disaster. Another example of a company using its distribution channels for CSR involves Target bringing trucks loaded with goods from its distribution centers to its stores and then returning. On return trips to the distribution centers, instead of leaving the stores with empty trucks, the drivers bring with them recycling items such as electronics, glass, and other items that might be difficult for some towns to recycle. In so doing, Target provides a central and convenient place for people who live near its stores to contribute to recycling initiatives that may otherwise be difficult to access. It also gives those community members one more reason to come to their stores.

Factors that Affect a Company's Choice of CSR Initiative

The Bulldog tavern has a few locations throughout New Orleans and Baton Rouge, Louisiana. Each location has some similarities to the others; for example, all of them allow you to bring your dog with you to the bar. So what social good does this organization tend to support? You probably guessed it: animal shelters. This makes sense to the Bulldog's customers and staff, allowing them to identify with the restaurant even more.

Questions that organizational decision-makers may consider when deciding on a CSR initiative may include: *What business are we in? Does this initiative make sense to us? Is it something that we as a company should be associated with? What size is our company, and what can we afford to do? What resources can we afford to offer? Do we have the time to do this initiative? What is our capacity to get involved? How far should our reach extend—who do we consider to be our community? What are the needs of our community, and what are some ways we are best situated to meet them?*

The values and passions of the founder, top management, current employees, and other important stakeholders are also important considerations. Ask what messages the current top managers want to send. It is also immensely useful to understand what your customers value. No matter how old a company is, the founder's values matter. The company is grounded, designed, operating, and structured in a way that reflects those values. Keep in mind the story of who the company was when it was founded and the roots it still has, grounded in that legacy.

One last factor worth discussing that could affect a company's choice of CSR initiative is how the company is organized. We mentioned briefly in the section on business ethics that structural considerations can influence ethical decision-making. The same is true regarding approaches to social responsibility.

Some companies are designed completely around social responsibility and the ways the company can engage in social good. Some values-based organizations, for example, make all operating decisions with social responsibility in mind. There is also a newer form of organizing that has gained in popularity: a B corporation. A **B corp** is a values-based organization that is all about their vision and doing good by the community. It is possible that a company's choice of investment strategy could be ingrained in principles of social responsibility. Organizing as a B corp makes a powerful up-front statement to your investors, so they won't be surprised to see your company making choices that may appear to go against the principle of profit maximization.

However, B corps aren't the only organizations that can be designed around values and a mission of social responsibility. For years, outdoor apparel company Patagonia has built an outstanding reputation for its environmental sustainability initiatives and responsible business practices. As a model of these virtues, Patagonia's founder, Yvon Chouinard, recently gave away the company (valued at $3 billion) to a special trust and nonprofit organization that were "created to preserve the company's independence and ensure that all of its profits—some $100 million a year—are used to combat climate change and protect undeveloped land around the globe."[97]

Holding green portfolios—investing in environmentally friendly companies—is another way for companies to engage in social good. Similarly, your company may avoid investing in or sourcing from certain industries that produce products or services, or whose founders support causes, that your decision-makers consider to be misaligned with your company's values. Consider: Who does your company or university invest in or otherwise partner with? What does this tell you about your company?

Communicating and Promoting CSR Initiatives

Organizations need to communicate their CSR efforts in ways they expect will appeal to or link to their audience and show the organization in a good light. Since companies spend a lot on CSR—money, time, salaries for employees who participate, and so forth—they want to get as much out of it as they can. This highlights their need to communicate these initiatives to corporate stakeholders. Managers put a lot of time into designing strategies to communicate to various stakeholders the CSR initiatives the company is doing and why they're doing them. The ways in which managers should communicate these same initiatives may differ based on who they're communicating to—because what sounds good to one stakeholder group might sound less appealing to another. For example, engineering employees might love the new initiative that allows them to spend half their day on Friday working with local schoolchildren to teach them technological skills, but the company's investors might not like the sound of engineering salaries being spent on something other than working to produce the company's products.

An example of communicating to different stakeholders comes from the case of Home Depot. What type of good work would you imagine they get involved in? Some of their initiatives include regularly employing people who might not otherwise have regular access to the employment marketplace—for example, people in the military reserves, whose schedules require a great deal of flexibility so they can go away for their training, and to others who may need similar flexibility. They also help to provide building materials, expertise, and training to organizations that do nonprofit construction work. Who benefits from all these engagements that Home Depot gets involved in?

1. The people receiving the houses built by the nonprofits
2. Their building partners and volunteers who build the houses
3. The communities in which the homes are built
4. Home Depot's employees:
   a. Those whose flexible schedules are met by the earlier initiative
   b. All employees, by establishing a sense of corporate pride in being part of a company that is doing good

However, they have to consider their stockholders, as they're giving away lumber, and lumber is expensive. A tricky task for managers is to ensure they're making a good and responsible corporate case for their CSR engagement to all stakeholders, including the owners of the company.

Companies can publicize their CSR initiatives by advertising the good work they're doing. They can also market to take attention away from any bad publicity they might otherwise be getting, but in doing so, they'll want to be very careful to avoid **window dressing**; that is, saying things in a way that is designed to appeal to different stakeholder groups but does not accurately describe what they are actually engaging in.

Similarly, companies need to ensure they're not touting positive CSR initiatives while ignoring or downplaying other factors that may be contributing equal but negative effects. **Greenwashing** refers to companies that either overstate their sustainability or environmentally friendly initiatives or otherwise make it sound as though they have made more of a positive impact than they have. Examples—of which there are unfortunately many—include companies advertising themselves as being dedicated to environmental causes while simultaneously violating environmental legislation. However, not every example of greenwashing is quite as blatant. Subaru, for example, is well known in the auto industry for attracting environmentally conscious buyers. The company has made enormous advances in an effort to live up to the expectations of these customers and has set the goal of becoming carbon neutral in its factories. But Subaru still comes under attack in some social media conversations, in which members accuse the company of greenwashing because it designs cars that are less fuel efficient than those of other automakers.

Calculating CSR Costs and Benefits

The costs of engaging in CSR are often relatively easy to calculate. They could be measured in terms of employee hours donated; the cash offered for or cash value of donated goods or services, including the value of the time it took to produce them; the opportunity cost in terms of what the company would otherwise have done with the dedicated money; and/or the time that could have been used to drive revenues instead.

Benefits, in many cases, are more difficult to calculate. One relatively easy benefit to calculate is tax deductions. In many cases, companies offset their taxed revenues by reporting the cost of donations they have made for charitable causes and so forth. These tax deductions are typically available when the organization's social responsibility efforts support a registered nonprofit organization—that is, a 501(c)(3). Similarly, tax credits may be available for engaging in certain socially responsible endeavors. Examples include state or federal tax credits for putting solar panels on buildings, building wind turbines, or electing to replace company trucks with a fleet of electric vehicles. Sufficient contributions to socially responsible causes may even allow a company to lower its tax bracket.

Other benefits include "free" advertising when the company's name and logo are displayed and news articles are written about its involvement in the socially responsible initiative or event. For example, until recently, Acura (a subsidiary of Honda Motor Company) was one of the biggest funders of one of New Orleans's most well-known events: the New Orleans Jazz and Heritage Festival (aka Jazz Fest). As a result of this high level of sponsorship, Acura earned "center stage" prominence at the festival and had its name on the grandest of the festival's many music stages. Thus, not only did the company get its own Acura tent and space in the festival grounds to show off its cars, but by far the majority of attendees at some point in the festival made their way over to the "Acura Stage," because that was where the biggest acts were playing.

One last benefit is related to employee motivation. While we do have metrics that allow us to measure employee motivation levels in the organizational sciences, it is sometimes difficult to decipher the monetary benefit of this motivation. Further, it is difficult to tease out the degree to which employee motivation may have changed as a result of the company's engagement in CSR initiatives above and beyond their general motivation levels.

As managers attempt to measure CSR benefits and costs, there are a few tools that may be useful. They could have their media team track media hits (in terms of the number of people who are either attracted to or—even better—engaged with a digital message) while tallying the costs of the associated advertisements. Also, highly motivated employees are generally less likely to leave. Turnover refers to the rate at which employees leave the company and need to be replaced. Tracking any reduction of turnover during and following a social responsibility initiative as compared to before the engagement began could be useful, but managers must be careful to control for other factors that may have influenced this rate (such as economic factors or other changes that occurred at the same time as the CSR initiative).

Perhaps an even more challenging endeavor would be to attempt to determine the degree to which certain initiatives aren't resonating well with different stakeholders. Doing so would require involving stakeholders across all stakeholder groups (employees, owners, customers, community members, etc.) in your conversations and allowing these conversations to inform future decisions. Ask for their opinions on what is working and what is not. What attributions do they make about your company as a result of your engagement in the targeted initiatives? Attributions and perceptions are real. How you are perceived is the equivalent of who you are in the eyes and mindset of your stakeholders.

ALTERNATIVE VIEWS OF CSR

LEARNING OBJECTIVE

2.7 Compare and contrast the alternative views of corporate social responsibility (CSR).

Milton Friedman is well known for his position that the only good a company should focus on is making a profit. But why would he think this? He argues that by doing so, the company is being a good corporate citizen: They are meeting market needs for products or services. They are paying their employees, and the employees are spreading their money throughout the community in various ways.

So is CSR just a matter of profit making? An affirmative response aligns with Friedman's perspective. The question to consider is whether Milton Friedman is right. Consider his quote in the *New York Times Magazine* in September 1970: "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."[98]

Let's flesh out some of the various aspects of this perspective.

- *Rules of the game:* Who gets to define those? Where are they defined? Are they set in stone? And who enforces them? Some may be covered under the law, and those would be enforced by the police, but the term *rules* importantly differs from laws. Are rules of the game just the way we do things around here—in this industry or in society, such as with the social contracts perspective? What constitutes acceptable behavior?
- *Open and free competition:* In Friedman's world, this implies a totally free market with no governmental policy interference. So an important question arises as to the generalizability of CSR when there is a market where others are heavily restricted to joining, such as markets in which monopolistic or near-monopolistic conditions occur. One example may be the case of internet providers and mobile phone companies. Another example could be an economy governed by controlling factors that are not characterized by hands-off governance.
- *Deception or fraud:* This is largely understood, but as we discussed earlier when describing the case of greenwashing, it is not always cut-and-dried.

A final aspect that does not appear to be considered in Friedman's perspective as implied in this particular quote is that of the internal stakeholder, thus not necessarily accounting for considerations of pay and work conditions and other aspects relevant to employees.

Despite the vast time between the current day and when Friedman originally made this statement, Friedman's contemporaries maintain that it remains as accurate today as it did then. Indeed, in considering whether companies and corporate practice have changed since this idea was initially generated—as they appear to have, with recent corporate embracing of sustainability and CSR—one perspective is that the companies have not changed but rather that *what has changed is the way they talk*. But have they? Sure, some of them would likely have just changed the way they talk—it would make sense for them to do so, and perhaps a smart decision to do so given the positive way in which social responsibility is viewed nowadays. You could lose a lot of customers for the presumption of inaction, so companies will want to communicate that they're doing good so they don't lose customers because it seems as though they're not doing their part to serve the community. Alternatively, a company might start talking about CSR because they want to go after new business targeting a new set of customers who care greatly about these concerns.

THE FUTURE OF ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

LEARNING OBJECTIVE

2.8 Discuss how the future of ethics and social responsibility will be an important part of the management planning process.

In an increasingly competitive and complex marketplace—where the pressure to succeed is intense and ever present—how can organizations and individuals resist the urge to cut ethical corners? And moreover, how can organizations ensure their decisions do well by their diverse sets of stakeholders? You have many, many ethical dilemmas ahead, and good ethical decision-making will be at a premium.

As the world continues to become increasingly global in the way we conduct business, ethical considerations in an international context become more and more important. Ethical standards are not universal. Social and cultural differences can reflect the acceptability of different choices and behaviors. For example, bribery is considered ordinary practice in some societies, whereas in others it is considered unethical and even illegal.

The United States has legislation in place to provide guidance for U.S. firms doing business internationally (e.g., the 1977 Foreign Corrupt Practices Act and additional legislation written under the 2010 Dodd-Frank financial reform law that followed the 2008 financial crisis). Companies that violate these laws can be punished severely by the Securities and Exchange Commission (SEC). However, a more recent decision by U.S. president Donald Trump in 2017 repealed the Dodd-Frank measure that required mining and oil companies to disclose payments they make to foreign governments, resulting in a loss of the transparency that the measure intended to provide.[99] As companies continue expanding their business throughout the world and as governments and their agents continue to debate the appropriate approaches to governing ethical business transactions, business managers may find themselves caught between difficult ethical decisions. For years, managerial ethicists have been toying with the question of whether managers should—or would choose to—track their employees at all times if the appropriate technology existed. Now, following the mass rise of remote and hybrid work during and following the COVID-19 global pandemic, employee monitoring software has become more sophisticated—and more in demand. Options range from simple time trackers that track where paid company time is spent by its employees to advanced employee monitoring systems that include direct surveillance and could be considered an invasion of employees' personal space. And research does not support the notion that such advanced tracking is actually beneficial. A 2022 *Forbes* article on "what managers get wrong about employee monitoring"[100] explains this data:

- Remote employees work longer hours
- Employees can mutually benefit from simple time tracking
- Employees are excited to work remotely

The article concludes with strong statements regarding the importance of transparent communication and explanations of the types of employee tracking (and why it's being done). Only by doing so can employers hope to maintain or repair employee trust.

WORKPLACE PRIVACY: THE BOUNDARY IS IN CONSTANT FLUX

Once upon a time, we held our privacy in the highest regard. We kept work at work and home at home. We held our personal data close to the vest. Times they are a-changing. Today's devices can track us from the subway to the office. Algorithms keep tabs on our preferences and behaviors. Our technology knows us well enough to predict where we'll go, what we'll want, and even whose company we'll enjoy.

Our brains are normalizing machines. We can get used to just about anything if we experience it long enough—even if we don't enjoy it. Even if we hate it. Social norms have evolved with alarming speed. Half a century ago, a teen would have instantly given up their seat on the train for an old woman with shopping bags. When people flew, they wore the kind of business attire you'd see in the boardroom. Today, these aspects of social etiquette have largely gone by the wayside. The new normal is faces glued to cell phones on public transit and yoga pants for the plane. Norms have changed dramatically.

The workplace is different too. Many of the new norms are to employees' benefit. Jobs are safer and largely more flexible and stimulating; employees enjoy more collaboration. But working days last longer, and technology has eroded the once-sacred line between home and work. Our bosses expect us to be more available, more self-motivated, and, ultimately, more productive than ever before. And that's now. What about in the future, with all the innovations it holds?

When your tablet or fitness watch or cell phone collects and disseminates an endless stream of data to your manager, how will you feel? What if, at the touch of a screen, your boss, your HR rep, and corporate have a pulse on not only your heartbeat but your mood, your habits, and your communications? Will you feel violated? What will happen when the cumulative pile of data about you is accessible to everyone? How will society change? What will the new social norms be?

HR and executives will have a dilemma before them. How will they use technology to unleash innovation while engaging workers without alienating them?

Source: Adapted from Vorhauser-Smith, S. (2018, January 14). HR: Can we please discuss ethics in the future of work? *Forbes.* https://www.forbes.com/sites/sylviavorhausersmith/2018/01/14/hr-can-we-please-discuss-ethics-in-the-future-ofwork/#5d5380ca3dd5.

New Scientist provides us with 10 equally tough ethical questions in their ethics issue, titled "The 10 Biggest Moral Dilemmas in Science."[101] While somewhat frightening, these questions are also fascinating to consider, because they will be part of the not-too-distant future:

1. Should animals have the same moral rights as humans? Minimizing the suffering of other life-forms is a laudable goal—but there's also human well-being to consider.
2. Should we edit our children's genomes? Tweaking genes to prevent your child from dying early from a genetic disorder would be acceptable to most people, but we need to ask how far we should go.
3. Should we make everyone "normal"? If more people thought and acted in the same way, societies would probably be happier and safer. But at what cost?
4. Should we abandon privacy online? The battle between online privacy and national security is reaching fever pitch. Where we end up depends on which Faustian ("deals with the devil") bargains we are willing to strike.
5. Should we give robots the right to kill? In the future, it will be possible for robots to perform military operations. Robot soldiers that follow orders, unclouded by human emotions, might reduce casualties in conflicts. But who will take responsibility for their actions? Should we let synthetic life forms loose?
6. Should we let new life forms loose? New forms of life could help tackle problems from famine to global warming, but releasing them into the wild raises biosafety concerns.
7. Should we geoengineer the planet? We only have one Earth. How far should we go in our attempts to save it from us?
8. Should we impose population controls? Future generations risk inheriting an overcrowded, suffocating planet. Taking action may mean what was taboo is now common sense.
9. Should we colonize other planets? As ever more potentially habitable exoplanets are discovered, it's time we asked ourselves: Do we have the right to take over another world?
10. Should we stop doing science? Scientific research may lead to benefits and advances, but they seem to go hand in hand with death and destruction. Should we quit while we're ahead?[102]

In the future, it will be possible for robots to perform military operations.

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To provide an additional glimpse into the types of decisions you and other leaders will be making, here is the first ethical question posed in the *Forbes* list of "Tech Issues We Should All Be Thinking About in 2019":

For $25k–$50k, you can now clone your cat or dog. However, there are no guarantees you'll get a new pet that looks or acts like your old one, and the host animals used to gestate clones have a pretty miserable life. Is it right to invest in this technology when there are so many animals in need of homes already out there?[103]

Over the decades, much research has been devoted to the question of ethics as it applies to commerce, technology, academics, and medicine, among other fields. These studies have underpinned the development of numerous frameworks and theories designed to foster ethical behavior.

For the management decision-makers of the future, consider the ethical framework being used by Michigan State University in its ethics program. They propose a six-step model for ethical decision-making designed to prepare business managers and leaders and other professionals to face a range of organizational challenges and personal choices. The key is that this model is intended to prepare *you*, since the answers to these ethical questions of the future are going to be determined by you. Here are the six steps:

1. *Know the Facts*
   Before you do anything else about an ethical issue, clearly define exactly what is challenging or problematic. Take the time to explore the issue in detail and from multiple perspectives so you can clearly define it.
2. *Gather the Required Information*
   When you make a decision without all of the required information in front of you, you are asking for trouble. Go on an information-gathering mission and identify any assumptions you are making about the ethical problem.
3. *Inventory the Concerns*
   Now explore the people, concerns, laws, rules, and professional standards that can influence your decision. Who is affected by or involved in the ethical issue? What are they concerned about? Are there any rules or laws or professional codes of conduct that relate to this issue?
4. *Develop Possible Resolutions*
   Look closely at your possible solutions. Be creative and look beyond straightforward options. You might also seek advice from people who have applicable expertise.
5. *Evaluate the Resolutions*
   Do a careful inventory of the outcomes you predict. Consider the cost and impact as well as compliance with laws and regulations. Think about the optics of your resolution. How will it look to the general public, to customers, and to corporate collaborators?
6. *Recommend an Action*
   It's time to finalize your decision. Make sure to follow through on your recommended action with implementation. Determine what it will take to put your solution in place and identify key stakeholders who are instrumental in making your recommendation a reality.[104]

CAREERS IN MANAGEMENT

CORPORATE SOCIAL RESPONSIBILITY (CSR) DIRECTOR

Gregory Unruh, the Arison Group Endowed Professor at George Mason University, was curious about how CSR expert Alberto Andreu Pinillos saw the CSR director's role. Alberto found he was often asked basic questions about his role—what he did and what his job was actually about. Alberto breaks his job into three core duties: foresight, nurturing, and evangelism.

1. Foresight
   CSR directors act as a "radar," homing in on risks and opportunities—be they social or environmental. It is their job to think beyond the immediate into the medium and long term.

They synthesize this information and put it in front of decision-makers so they can capitalize on opportunities and proactively address risks. Alberto points out that a decade ago, executives weren't really thinking about social and environmental issues related to the supply chain, but innovative and dynamic CSR directors were. They helped prepare execs for a paradigm shift that was on the horizon. CSR directors have also predicted the increasing importance of diversity in the workplace and have helped HR directors implement changes in advance of regulations.

2. Nurturing

   Alberto contends that CSR directors are also incubators for internal projects. They work with other departments to bring about social and environmental improvements. For example, consider the issue of diversity. Imagine an organization operating in Europe. The CSR director might use their foresight to identify diversity as a key issue and take the lead, nurturing an initiative to achieve compliance. Once the project is kicked off, it can be handed over to HR. CSR directors are like parents, Alberto argues. "The problem is that [managers] get confused in one of two ways: Either releasing projects before they're ready or holding on to them for too long. You can't make a mistake when it comes time to let your 'children' leave home . . . neither too soon, nor too late."

3. Evangelism

   The long-term purpose of the CSR office is to educate the entire organization about sustainability. They must sell sustainability and a sustainable mindset throughout all levels of the organization and get buy-in. Alberto says, "The true test of a responsible company is when all functions and departments are capable of minimizing their own negative impacts and are thinking about making a positive impact on their community." The CSR department should be so adept at spreading the message of sustainability that sustainability becomes habit for all employees, without the CSR department's help.

Discussion Questions

1. Of the three principal activities and responsibilities, foresight, nurturing, and evangelism, which do you think is most important and why?
2. Explain the link between CSR and sustainability. Provide an example of how businesses address sustainability.
3. Do you agree or disagree that CSR is a part of everyone's job? Do you feel there is still a need for a CSR director in organizations? Explain your reasoning.

Source: Adapted from Unruh, G. (2015). What does a corporate responsibility manager do? *MIT Sloan Management Review*. https://sloanreview.mit.edu/article/what-does-a-corporate-responsibility-manager-do/.

MANAGERIAL IMPLICATIONS

This chapter provided an overview of the different ways ethics can be viewed, the moral development process, and the complexities of ethical decision-making. Fortunately, we also provided you with several different frameworks to help you make decisions, test for their ethicality, and prepare for the even more complex ethical decisions you will be making as key managers and leaders and valuable organizational members.

The key takeaway points from this chapter are:

- Ethical decisions and behaviors can rarely be viewed in terms of "right" and "wrong." Ethics are inherently subjective, meaning that what one person views as ethical, another might view as unethical. Managers must be aware of this subjectivity and anticipate the views of their stakeholders. There are different perspectives that can be applied to ethical decision-making: the utilitarian view, the rights view, and the theory of justice. In addition, the ethics of care may be applied.
- As we learn, grow, and experience new situations, our own sense of ethics changes through a process called moral development. Kohlberg devised a model of the stages of moral development: pre-conventional, conventional, and post-conventional.

- Managers are human beings and are subject to the same ethical weaknesses and challenges we all face. Their position often requires that they be held to higher moral standards than other employees, however. Learning to understand and manage one's own ethical decision-making process is therefore a key skill for effective management.
- The ethical decision-making process is deceptively complex, particularly for managers. Understanding the steps of this process is helpful for avoiding ethical mistakes in the eyes of employees, customers, and other stakeholders. The PLUS model is an excellent way to frame your future ethical decisions. In making decisions, managers should consider *policies, legal, universal*, and the *self*. This allows managers and employees to have a common language in the consideration of ethical questions.
- Not all ethical dilemmas are created equal. Moral issues vary in their moral intensity, and managers need to be aware of how factors such as the probability, magnitude, and proximity of consequences can influence their decision-making process—for better or for worse.
- Organizations can influence employee ethical decisions through the creation of caring ethical climates and the creation of clear rules for ethics. Also, managers should serve as role models through practicing ethical leadership.
- Social responsibility can improve a company's financial performance if its managers know how to harness its impact on innovation, recruitment, reputation, and culture. Two good ways are for managers and leaders to focus on stakeholders rather than shareholders and to be concerned with the triple bottom line, or the 3Ps—people, planet, and profit—rather than just being concerned about the monetary bottom line.
- With respect to corporate social responsibility, the future will hold an increasing number of complex considerations, ranging from genomes to robotics. Managers must be prepared to address the ethical dilemmas on the horizon.
- Ethics may be a combination of individual moral development and shaping by the corporate climate and ethical leadership. Corporate social responsibility is good for business and the well-being of the stakeholders of the organization.

KEY TERMS

B-corp
bounded ethicality
caring ethical climate
Community
Commitment
consequentialist ethics
Contributions of corporate resources
conventional reasoning
corporate social responsibility
Corporate resources
deontological ethicsduty-based ethics
Discretionary
Distribution channels
Employee volunteering
Environmental influences
ethical climate
ethical leadership
ethics
ethics of care
External influences
Greenwashing
independence ethical climate
In-kind contributions
instrumental ethical climate
Integrated social contracts theory
Internal influences
law and code
moral courage
moral development
moral intensity
moral outrage
moral relativism
PLUS decision-making model
post-conventional reasoning
pre-conventional reasoning
rights view

rules ethical climate
shareholders
stakeholders
Supporting a cause
theory of justice
triple bottom line (TBL)3Ps
utilitarian view
virtue ethics
Well-being
Window dressing

YOUR MANAGEMENT TOOLKIT

Toolkit Activity 2.1 Real-Life Choices in Corporate Social Responsibility

A window-and-door-manufacturing plant decided to stop outsourcing the painting of its aluminum components and install its own paint facility. The paint used for this type of metal is known as a powder-coat finish, and the application process is simply blasting the color onto the raw aluminum.

The by-product of the powder finish, VOCs (volatile organic compounds), kept the large paint line filled with a constant mist of dust, and the rest of the VOCs left the room via air ducts and blowers installed in the ceiling and were released into the atmosphere.

After the first year of operation, the regional Environment Protection Agency (EPA) inspector came through and told the owner he did not have proper "scrubbers," or filters, in the air ducts and was causing harm to the environment around the plant. In fact, the plant was bordered on two sides by residential communities and on two other sides by wooded areas. The fine assessed was $100,000. The cost to fix the scrubbers was $1,000,000.

The following year the EPA inspector returned and once again fined the owner $100,000 because he had decided not to fix the air ducts. The process continued for the next decade.

As you read the discussion questions, keep in mind everything you have read in the chapter to help you assess and make recommendations for this case.

Discussion Questions

1. Why didn't the owner fix the problem?
2. What stakeholders were being harmed by the VOC emissions?
3. What would you do?
4. How would you justify your decision?

Toolkit Activity 2.2 Trolley Problem: Ethical Decision-Making Exercise

Instructions

1. Read the Trolley Problem Setup and Scenario 1 to a group of students.
2. Ask those who choose Option 1 to stand on one side of the room and those who choose Option 2 to stand on the other side of the room.
3. Ask for volunteers to share why they made their choice.
4. Discuss what personal value they used to help them make their choice. For example, did they choose Option 1 because they want the greatest good for the greatest number of people? Did they choose Option 2 because they don't want to be responsible for causing the death of someone?
5. Proceed through the other scenarios, asking students to stand on sides of the room and asking why students made the decisions they did and which value(s) they used to guide their decisions.

Trolley Problem Setup

Suppose you are the driver of a trolley car. It is the first run of the day, and there is no one on the trolley besides you. As you start down a hill, you realize the brakes on the trolley car aren't working because the brake line has been cut.

SCENARIO 1

- You are currently on Track A, but you can steer the trolley onto Track B if you choose to flip the switch.
- Five people are working on Track A, and one person is working on Track B.
- Anyone on the track along which your runaway trolley travels will be killed.

Discussion Questions

1. Would you change tracks and kill one person to spare five (Option 1), or would you do nothing and allow the trolley to continue on its path (Option 2)?
2. Why would you make this choice? What personal value is guiding this decision? Option 1 = greatest good for the greatest number (do what you can to save as many lives as possible). Option 2 = do no harm (don't be the cause of anyone getting killed).

SCENARIO 2

1. There is no Track B, just Track A with five people working on it.
2. You are no longer the driver, but you are standing on a bridge and the runaway trolley will be going below you soon and will strike and kill five people.
3. You can stop the trolley by dropping something heavy on the tracks below.

Discussion Questions

1. Would you push a very large man off the bridge and onto the tracks to stop the trolley, even if it meant the large man would die (Option 1)? Or do nothing and allow the trolley to continue on its path (Option 2)?
2. Why would you make this choice, and what personal values are you using?
3. Did you choose the same option as before?
4. Is pushing the large man onto the tracks the same as throwing the switch in Scenario 1?

Sources: Edmonds, D. (2014). *Would you kill the fat man? The trolley problem and what your answer tells us about right and wrong.* Princeton University Press; Foot, P. (1978). *Virtues and vices and other essays in moral philosophy.* University of California Press.

Follow-Up: The Train Problem Has Been Tested in "Real Life" for the Very First Time

As if just thinking about this hypothetical catch-22 weren't enough to make you shudder, scientists have brought it to life—or at least partly.

In Belgium, scientists brought about 200 volunteer students into a lab and gave them a terrible choice to mimic the train scenario. They recreated the experiment with mice! In the lab, they hooked an electroshock machine to two cages. One cage housed five mice. The other had just one. Sound familiar?

Participants were told that, in 20 seconds, if they didn't intervene, all five mice in one cage would receive a survivable but extremely painful jolt of electricity. However, if they pushed the button before the 20 seconds was up, only one mouse in the other case would receive the shock.

In reality, the machine wasn't actually going to shock the mice, but the participants had no idea.

Eighty-four percent of the student volunteers pushed the button, sparing the five mice and shocking the one mouse.

In a separate experiment in which participants were simply told about the scenario, only 64% said they'd shock the single mouse.

Of course, the experiment isn't exactly like the runaway train scenario. We can't actually compare shocking a mouse to killing a person with a runaway railcar, can we? But here's what the experiment suggests. In a real-life scenario, most people rely on a consequential version of ethics (considering the overall outcome) rather than deontological ethics (which says it would be unethical to decide to hurt anyone, regardless of the overall outcome).

Discussion Questions

1. What do you think you would do? Would you press the button and shock the single mouse? Explain why or why not.
2. Why do most people lean in the direction of consequentialism (do the most good for the most people) rather than deontological thought (harming one person is wrong)? How does this create ethical dilemmas in business decisions?
3. Develop a business example in which doing the most good for the most people would harm a single person. Does this change your perspective? Why or why not?

Sources: Bostyn, D. H., Sevenhant, S., & Roets, A. (2018). Of mice, men, and trolleys: Hypothetical judgment versus real-life behavior in trolley-style moral dilemmas. *Psychological Science, 29*(7), 1084–1093; Dockrill, P. (2018, May 14). The trolley problem has been tested in "real life" for the very first time. https://www.sciencealert.com/the-trolley-problem-tested-in-real-life-first-time-consequentialism-deontologist.

Case Study 2.1 Panama: The Perfect Stakeholder Model

Trade and logistics professionals know that shipping is vital to moving goods around the world, even more so today as the global marketplace continues to propel business operations into the 21st century. The Panama Canal, an engineering marvel of the late-nineteenth and early-twentieth centuries, created a shipping "elevator" for sea vessels to pass easily through the 50-mile land mass separating the Pacific Ocean and the Caribbean Sea. This manufactured ingenuity continues to keep Panama front and center when it comes to global logistics. The Panama Canal was designed as a way to float ships up into the mountain lake, then lower them just as easily into another sea.[105] The more than a week in time and corresponding mileage saved by not going around the tip of South America are huge benefits for any ocean passage. The canal also makes it unnecessary to load, unload, and then reload goods on a rail system connecting coast to coast across mountainous terrain, although this option is still available.

Perhaps most interesting of all is that the country of Panama, having global tentacles, doesn't even possess a military contingent. Strategic maritime transport passages (SMTPs) have historically encountered "battles for passages to ensure the smooth transportation of strategic materials."[106] However, this does not seem to apply to Panama's situation. So how do Panama and the Panama Canal Authority pull this gargantuan feat off with only a police force in place for keeping law and order? This appears to be yet another marvel unique to the Panama Canal itself.

How does a small tropical nation in the middle of the world survive without a military? Well, Panama may be a great example of the perfect application of stakeholders! The stakeholder model, typically applicable to business environments, identifies all who have a vested interest in the success of the entity in question.[107] Furthermore, as Fernandes and colleagues contend, "successful management of stakeholders" creates a "competitive advantage for the organization."[108] Since over 160 countries use the shipping convenience of the Panama Canal, maintaining continuous operations is imperative to its survival. In turn, a strong incentive for all nations to utilize this geographic adaptation for global trade provides optimal conditions for Panama to thrive. This is vital to the overall global economy, as both corporations and nations that rely so heavily on the sale and purchase of goods throughout the world also rely on the performance of the Panama Canal. This works as a safety mechanism to all stakeholders and appears to be built into the functioning of the canal. Hence the real marvel of the Panama Canal, besides its engineering genius, seems to be its far-reaching effects due to its mere geographical advantage as it yields to global commerce, keeping military costs at bay and providing a much-needed global passageway for international trade routes.

By the 2000s, it became evident that an expansion of the Panama Canal would be required due to increased maritime transportation needs. The canal expansion project would necessitate a complex risk analysis, cost more than 5.2 billion dollars, and take at least eight years to complete.[109] But once the expansion of the Panama Canal was finished, the numbers of stakeholders increased as well. Not only did the country of Panama and the Panama Canal Authority benefit, but customers reaped the rewards of increased transits, improved transit speeds, and increased ship capacity.[110] In other words, more ships could pass through the newly expanded passageway, larger ships could pass with ease, and overall time was reduced due to the increased availability of usage.

Case Questions

1. Describe the stakeholder model and explain how it impacts the overall peaceful operations of the Panama Canal.
2. How can organizations work toward a more "perfect" stakeholder model that keeps all stakeholders working effectively and efficiently? What seems to get in the way of operating within a congenial stakeholder model?
3. How can organizations work toward satisfying all stakeholders and maximizing benefits for all concerned?
4. What lessons can organizations learn from developing a "win-win" approach to satisfying stakeholders? Or is it not possible to satisfy them all?
5. Research further how the Panama Canal was originally designed and funded and compare that to how the new expansion helped meet the needs of the 21st-century global marketplace. Provide a short paper or PowerPoint presentation to share with your class.
   Case created by Dr. Lisa Knowles, St. Thomas University.