



3

CHAPTER

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Learning Objectives

After reading this chapter, you should be able to

1. discuss how the nature of a management job creates the possibility for ethical abuses.
2. identify common kinds of workplace deviance.
3. describe what influences ethical decision-making.
4. explain what practical steps managers can take to improve ethical decision-making.
5. explain to whom organizations are socially responsible.
6. explain for what organizations are socially responsible.
7. explain how organizations can choose to respond to societal demands for social responsibility.
8. explain whether social responsibility hurts or helps an organization's economic performance.



Ethics and Social Responsibility

What Would You Do?

McDonald's Restaurant, Calgary Trail, Edmonton: "Welcome to McDonald's. May I take your order, please?" "Yes, I'd like an Egg McMuffin, hash browns, a small orange juice, and a large coffee." More than 5 million times a day, someone in the United States or Canada purchases an Egg McMuffin at a McDonald's. In fact, McDonald's (www.mcdonalds.ca) 14 000 Canadian and U.S. restaurants buy approximately 2 billion of the 80 billion eggs produced each year in these two countries.

Customers go to McDonald's for its quick service and good prices. But that doesn't matter to PETA, People for the Ethical Treatment of Animals, an advocacy group run by vegetarian activists who care only about advancing the rights of animals worldwide. For the last few years, PETA (www.peta.org) has been running a "McCruelty to Go" publicity campaign against McDonald's. Through 400 demonstrations in 23 countries, including Canada, numerous magazine and billboard ads, and its www.mccruelty.com website, PETA has pressured McDonald's to require the farmers from whom it gets its food products to treat animals more "humanely." How powerful is PETA? In Canada alone, it has forced Burger King, Wendy's, and Canada Safeway Ltd. to alter controversial aspects of their business practices. Indeed, Safeway also found

itself the subject of a PETA website, www.shameway.com. PETA wants McDonald's to buy eggs only from suppliers that don't debeak hens (cutting off a chicken's beak reduces damage from chicken fighting), that give egg-laying hens 465 square centimetres of living space (most egg-laying hens are kept in small cages no larger than half a piece of letter-size paper, which, according to PETA, prevent them from standing up, stretching their legs and wings, or moving around), and that don't withhold food to increase molting and thus egg production (forced molting, meaning the shedding of feathers, is a process in which birds are rested from egg production and food is temporarily withheld. This restores hens' ability to lay eggs).

Of course, not everyone agrees with PETA's views and recommendations. Egg farmers say that they go to great lengths to treat their hens well and keep them in good health. Jerry Armstrong, who owns an egg ranch with 1 million hens, said, "We're always concerned with our birds' welfare. If they're not happy and contented, they won't lay eggs and we're out of the egg business." The egg industry says that hens are kept in cages to decrease costs, which matters to consumers, but also to improve sanitation and bird health. If McDonald's adopts PETA's recommendations to double the size of hens' cages, they would have to pay an extra 25 or 30 cents for a dozen eggs. And with too

many egg producers in an overly crowded market, increased costs of any kind, but especially those that would require producers to double the size of their production facilities, could lead to huge costs and losses. Jerry Armstrong claims, "These rules would put me out of business."

What is the ethical thing to do in this situation? Should McDonald's give in to PETA's demands, or should it ignore them? Given that protests are not a new thing for McDonald's, how does it decide how serious an issue this is and the lengths to which it should go to address these issues, if any? If McDonald's seriously considers PETA's demands, how does it decide whose interests take precedence? Is it more socially responsible to require its egg suppliers to change their practices if changing them leads to financial losses and puts some suppliers out of business? Which comes first, the chickens or the egg producers? No matter what McDonald's decides, someone or some group will be very unhappy.

If you were making this decision for McDonald's, what would you do?

Sources: "Egg Production Information," American Egg Board. [Online] Available www.aeb.org/eii/production.html, 29 June 2001. "Did You Know...?" Canadian Egg Marketing Agency. [Online] Available www.canadaegg.ca, 10 October 2002. A. Butler, "PETA Celebrates Meat-Out at...Burger King!" PETA News Releases. [Online] Available www.peta-online.org, 19 March 2002. B.G. Friedrich, "PETA to Praise Overtime

Target Wendy's at Shareholder Meeting." PETA News Releases. [Online] Available www.peta-online.org, 1 May 2002. "B.C. SPCA Plans to Launch Line of Certified Chickens Eggs," *Canadian Press Newswire*, 2 April 2002. D. Campbell, "Chicken Run:

McDonald's Takes a Cue from the Hit Film and Demands Better Conditions for Hens Used to Supply Eggs for Its McMuffins," *The Guardian*, 8 September 2000. T. Perry, "Egg Producers Are McMiffed: Industry Balks at McDonald's Tough Rules on Hen Treatment," *Los Angeles*

Times, 7 September 2000, C1. D. Wetzel, "McDonald's to Require Its Egg Suppliers to Improve Conditions for Hens," *Chicago Tribune*, 24 August 2001.

McDonald's dilemma about the treatment of chickens is an example of the tough decisions that managers face regarding ethics and social responsibility. Unfortunately, one of the "real world" aspects of these decisions is that no matter what you decide, someone or some group will be unhappy with the decision. Managers don't have the luxury of choosing theoretically optimal, win-win solutions that are obviously correct to everyone involved. In practice, solutions to ethics and social responsibility problems aren't optimal. Often, they are "make-do" or "do the least harm" kinds of solutions. Clear rights and wrongs rarely reveal themselves to managers charged with "doing the right thing." The business world is much messier than that.

What Is Ethical and Unethical Workplace Behaviour?

ethics

the set of moral principles or values that defines right and wrong for a person or group

Ethics is the set of moral principles or values that defines right and wrong for a person or group. In light of highly publicized cases such as Enron, Worldcom, Tyco, and Adelphia, it is not surprising that several studies have produced distressing results about the state of ethics in today's business world. In a broad survey of 2300 workers, 75 percent indicated that they had seen unethical behaviour at work, such as deceptive sales practices, unsafe working conditions, environmental breaches, and mishandling of confidential or proprietary information within the last year.¹ A similar survey of 2293 workers found that less than half (47 percent) felt that the senior leaders in their companies were ethical.² Furthermore, 60 percent of workers felt substantially pressured to commit unethical or illegal acts at work. Only 6 percent reported feeling little pressure to commit such acts.³ Finally, in a study of 1324 randomly selected workers, managers, and executives across many industries, 48 percent of respondents admitted to committing an unethical or illegal act in the past year! These acts included cheating on an expense account, discriminating against co-workers, forging signatures, paying or accepting kickbacks, and "looking the other way" when environmental laws were broken.⁴ Winn Swenson, director for integrity management services at KPMG, said, "Corporations need to recognize that the problem is out there."⁵

However, these studies also contained good news. When people are convinced that they work in an ethical work environment, they are six times more likely to stay with that company than if they believe that they work in an unethical environment.⁶ In short, a lot of work needs to be done to make workplaces more ethical, but, and this is very important, managers and employees want this to happen.

After reading the next two sections, you should be able to

1. discuss how the nature of a management job creates the possibility for ethical abuses.
2. identify common kinds of workplace deviance.

1. Ethics and the Nature of Management Jobs

ethical behaviour

behaviour that conforms to a society's accepted principles of right and wrong

Ethical behaviour follows accepted principles of right and wrong. Probably the most famous recent example of unethical corporate behaviour involves the American energy trading company Enron (www.enron.com). By using a complex web of "off-balance-sheet" partnerships and active efforts to avoid paying corporate taxes, its senior

executives managed to overstate its earnings by over \$600 million. These actions led to the eventual bankruptcy of the company as well as the loss of billions of dollars in future pension income for employees and in shareholders' investments. On the other hand, Wal-Mart (www.walmart.com) has very strict guidelines concerning its employees' ethical behaviour. Any employee who accepts anything of value (dinner, free tickets to a sports event, a round of golf, etc.) from a company that Wal-Mart does business with will immediately be dismissed. Wal-Mart employees aren't even permitted to allow representatives from other companies to buy them a cup of coffee. Furthermore, to encourage employees to behave ethically, all of Wal-Mart's suppliers and vendors are required to do business with Wal-Mart employees in "glass rooms," visible to anyone who walks through the lobby at company headquarters. Finally, the walls in each of these glass rooms are covered with posters that say, "Any item received [from a supplier or vendor] will be returned to sender at their expense."⁷

Unethical management behaviour occurs when managers personally violate accepted principles of right and wrong. The authority and power inherent in some management positions can tempt managers to engage in unethical practices. In the case of Tyco, its CEO Dennis Kozlowski was accused of failing to pay over \$1 million in sales taxes on sales of artwork after his efforts to hide the transactions were discovered. Since managers often control company resources, there is a risk that some managers will cross over the line from legitimate use of company resources to personal use of those resources. For example, treating a client to dinner is a common and legitimate business practice in many companies. But what about treating a client to a ski trip? Taking the company jet to attend a business meeting in Winnipeg is legitimate. But how about using the jet to come home to Toronto by way of Calgary and the skiing wonders of Lake Louise? Two large U.S. companies recently gained notoriety for questionable uses of company resources. Human resources can be misused as well. For example, using employees to do personal chores, such as picking up the manager's dry cleaning, is unethical behaviour.

Handling information is another area in which managers must be careful to behave ethically. Information is a key part of management work. Managers collect it, analyze it, act on it, and disseminate it. However, they are also expected to deal in truthful information and, when necessary, to keep confidential information confidential. Leaking company secrets to competitors, "doctoring" the numbers, wrongfully withholding information, or lying are some possible misuses of the information entrusted to managers. For example, in Hong Kong, "Ba dan" literally means white sheet. At Bausch & Lomb's (www.bauschandlomb.com) Hong Kong division, managers used the term "Ba dan" to refer to the fake sales numbers they sent to company headquarters each month. To maintain its status as Bausch & Lomb's top international division, Hong Kong managers would fake the sales numbers for its Southeast Asian customers. Then, to make the fake numbers look like real sales, it would ship its product (glasses and contact lenses) to a phony customer warehouse.⁸ Bausch & Lomb used company auditors plus its internal security department, which was run by ex-Secret Service agents and police officers, to set up "sting" operations to catch the employees who were running the "Ba dan" scam in Hong Kong.

A third area in which managers must be careful to engage in ethical behaviour is the way in which they influence the behaviour of others, especially those they supervise. Managerial work gives managers significant power to influence others. If managers tell employees to perform unethical acts (or face punishment), such as "faking the numbers

Build Up Your "Forget You Fund"

Mike Royko, a newspaper columnist, boiled business ethics down to two key ingredients. The first is your conscience. Royko says that if your parents didn't do their job, you won't have one. Ingredient number two is to get a "Forget You Fund." Basically, an FUF is three to six months' worth of paycheques in the bank. When your boss asks you to do something that you cannot in good conscience do, quit! Royko said that an FUF takes the control that your boss and the company have over you and replaces it with your freedom to do what you think is right.



The ethical behaviours of managers and employees can have dramatic impacts on the way organizations are perceived by society. To learn more about ethical approaches and guidelines, visit our animated concept and activity site. Choose Ethics & Social Responsibility from the "select a topic" pull-down menu, then Ethical Approaches from the "overview tab."

www.experiencingmanagement.com

to get results,” they are abusing their managerial power. This is sometimes called the “move it or lose it” syndrome. “Move it or lose it” managers tell employees, “Do it. You’re paid to do it. If you can’t do it, we’ll find somebody who can.”⁹

Not all unethical managerial influence is intentional, however. Sometimes managers unintentionally influence employees to act unethically by creating policies that inadvertently reward employees for unethical acts. For example, in an attempt to make its automotive repair shops more profitable, Sears restructured its incentive system. It paid mechanics and shop managers a commission depending on the number of batteries, shock absorbers, oil changes, or tune-ups they sold per work shift. However, this pay system put the workers’ best interests (higher pay) directly in conflict with the interests of customers (honest repair work). What management was trying to accomplish was greater productivity, but instead, employees started selling unneeded parts and repair work. This practice became so widespread that many customers and government regulators accused Sears of cheating customers by selling unnecessary parts and repairs. Sears management has since ended the incentive program.¹⁰

Setting goals is another way that managers influence the behaviour of their employees. If managers set unrealistic goals, the pressure to perform and to achieve these goals can influence employees to engage in unethical business behaviours. For example, at Bausch & Lomb, there was tremendous pressure to achieve double-digit increases in revenues each year. Said a former company president, “Once you signed up for your target number, you were expected to reach it,” no excuses accepted. As a result, Bausch & Lomb has changed its compensation and reward systems to reward managers and employees for long-term rather than short-term performance.

Review 1 Ethics and the Nature of Management Jobs

Ethics is the set of moral principles or values that define right and wrong. Ethical behaviour occurs when managers follow those principles and values. Because they set the standard for others in the workplace, managers can model ethical behaviour by using resources for company and not personal business. Furthermore, managers can encourage ethical behaviour by handling information in a confidential and honest fashion, by not using their authority to influence others to engage in unethical behaviour, by not creating policies that unintentionally reward employees for unethical behaviour, and by setting reasonable rather than unreasonable goals.

Unfortunately, as will become apparent throughout this chapter, the issue of appropriate behaviour is not a simple one. Managers are often responsible for addressing behaviours or potential behaviours that are ethical or unethical. These unfortunately need to be distinguished from legal and illegal behaviours. In the following paragraphs you will read about employee theft or “shrinkage,” which is not only a criminal offence in Canada but is also unethical. But also keep in mind the situation of an employee lying to a customer about a boss being out of town when that individual is actually in the office. Although dishonest, morally wrong, and from the point of view of the recipient of the message, unethical, this act is not a criminal act and hence not illegal. These examples illustrate the dilemma that many managers face when seeking to respond to controversial behaviour and the need for organizations to develop solid codes of conduct to help decision makers. Before addressing this issue, let us first discuss the concern of workplace deviance.

2. Workplace Deviance

Depending on which study you look at, one-third to three-quarters of all employees admit that they have stolen from their employers or committed computer fraud, embezzled funds, vandalized company property, sabotaged company projects, or been “sick” from work when they really weren’t sick. Experts estimate that unethical behaviours like these, which researchers call “workplace deviance,” may cost companies as much as

\$400 billion U.S. a year.¹¹ Further, one survey estimates that 20 percent of Canadian workers know when deviant behaviour is occurring in their workplace. Indeed, in Canada alone, the same survey places the cost at \$23 000 per company per year.¹²

More specifically, **workplace deviance** is unethical behaviour that violates organizational norms about right and wrong. Exhibit 3.1 shows that workplace deviance can be categorized by how deviant the behaviour is, from minor to serious, and by the target of the deviant behaviour, either the organization or particular people in the workplace.¹³ One kind of workplace deviance, called **production deviance**, hurts the quality and quantity of work produced. Examples include leaving early, taking excessively long work breaks, purposely working slower, or intentionally wasting resources.

Property deviance is unethical behaviour aimed at company property. Examples include sabotaging, stealing, or damaging equipment or products, or overcharging for services and then pocketing the difference. While it's certainly scary to think about, Boeing, the passenger jet manufacturer, has had instances of product sabotage. In a number of instances during routine product testing, the manufacturer has found wires cut in its 737 jets. Each 737 has 57 600 km of wiring. No one has ever been caught for cutting the wires. A spokesperson for EasyJet (www.easyjet.com), a London-based airline, recently said, "This incident is very disturbing, and we are demanding a full investigation into how it could have happened. We need a guarantee from Boeing that these

workplace deviance
unethical behaviour that violates organizational norms about right and wrong

production deviance
unethical behaviour that hurts the quality of work produced

property deviance
unethical behaviour aimed at the organization's property

EXHIBIT 3.1

TYPES OF WORKPLACE DEVIANCE



Source: Academy of Management, PO Box 3020, Briar Cliff Manor, NY 10510-8020. "A Typology of Deviant Workplace Behaviors," (Figure), S.L. Robinson & R.J. Bennett. *Academy of Management Journal*, 1995, Vol. 38. Reproduced by permission of the publisher via Copyright Clearance Center.

planes are 100 percent free of any further problems. Like all airlines, we rely on the manufacturer delivering a safe product.”¹⁴ Sometimes, however, property deviance occurs with company property, rather than company products. An employee planted a software bomb in the centralized file server that contained one company’s key programs and data. The code destroyed the programs and data that ran the machines in the company’s manufacturing plant. The company lost \$10 million as a result, including \$2 million in reprogramming costs. Eighty employees had to be laid off because of lost business resulting from the incident.¹⁵

shrinkage
employee theft of company merchandise

Another common form of property deviance called **shrinkage** is the theft of company merchandise by employees. One industry in particular, retail, tracks losses of this nature fairly intensely. One estimate places shrinkage costs for traditional Canadian retailers at more than \$3 million a day and more than \$3 billion for the entire industry or 1.8 percent of annual sales.¹⁶ These shrinkage costs represent 33 percent of all corporate losses in the retail sector attributed to criminal activity of one type or another. Further, the Retail Council of Canada (www.retailcouncil.org) estimates the average loss for an employee theft at over \$600. Not surprisingly, some firms have been hit harder than others. Recent figures suggest companies such as Chapters Inc. and Shoppers Drug Mart have faced shrinkage losses in the order of 2.1 percent and 1.5 percent of annual sales.¹⁷ In the case of Shoppers Drug Mart, that works out to more than \$6 million annually. Researchers have also attempted to profile the typical dishonest employee. Such an individual will work for a company an average of nine months and steal approximately \$1500 worth of goods or services.¹⁸

political deviance
using one’s influence to harm others in the company

While workplace and production deviance harm companies, political deviance and personal aggression are unethical behaviours that hurt particular people within companies. **Political deviance** is using one’s influence to harm others in the company. Examples include making decisions based on favouritism rather than performance, spreading rumours about co-workers, or falsely blaming others for mistakes. **Personal aggression** is hostile or aggressive behaviour toward others. Examples include sexual harassment, verbal abuse, stealing from co-workers, or personally threatening co-workers. One of the fastest growing kinds of personal aggression is workplace violence. More than 2 million North Americans are victims of workplace violence each year. A prominent example is the OC Transpo case in Ottawa, where a worker, who had been teased for stuttering, returned to the work site with a gun and killed four co-workers.¹⁹ In another infamous case, Concordia University engineering professor Valery Fabrikant killed three of his academic colleagues at the institution’s downtown campus.²⁰

personal aggression
hostile or aggressive behaviour toward others

Although violence is on the decline, workplace violence is not. Police are pictured outside a Navistar Engine plant where a man shot and killed five co-workers and injured four others before turning the gun on himself.

AP/Wide World Photos



If recent evidence is any indication, approximately 60 Canadians are killed at work annually.²¹ Perhaps more disturbing are the results of an International Labor Organization study that suggests women employed in Canadian workplaces are four times more likely to be on the receiving end of workplace violence than their American counterparts.²² Although many victims are police officers, security guards, or taxi drivers, store owners and company managers are most often the ones killed.²³ For more information on workplace violence, see the Canadian Centre for Occupational Health and Safety website, www.ccohs.ca.

Review 2

Workplace Deviance

Workplace deviance is behaviour that violates important organizational norms about right and wrong and harms the organization or its workers. Production deviance and property deviance harm the company, whereas political deviance and personal aggression harm individuals within the company.

How Do You Make Ethical Decisions?

On a cold morning in the midst of a winter storm, schools were closed and most people had decided to stay home from work. However, Richard Addessi had already showered, shaved, and dressed for the office. Addessi, whose father worked at IBM for 36 years, was just four months short of his 30-year anniversary with the company. Addessi kissed his wife Joan goodbye, but before he could get to his car he fell dead on the garage floor of a sudden heart attack. Having begun work at IBM at the age of 18, he was just 48 years old.²⁴

You're the vice president in charge of benefits at IBM (www.ibm.com). Yes or no, given that he was four months short of full retirement, do you award full retirement benefits to Mr. Addessi's wife and daughters? If the answer is yes, they will receive his full retirement benefits of \$1800 a month and free lifetime medical coverage. If you say no, Mrs. Addessi and her daughters will receive only \$340 a month. They will also have to pay \$473 a month just to continue their current medical coverage. As the VP in charge of benefits at IBM, what would be the ethical thing to do?

After reading the next two sections, you should be able to

3. describe what influences ethical decision-making.
4. explain what practical steps managers can take to improve ethical decision-making.

3. Influences on Ethical Decision-Making

So what did IBM decide to do? Since Richard Addessi was four months short of 30 years with the company, IBM officials felt they had no choice but to give Joan Addessi and her two daughters the smaller, partial retirement benefits. Do you think that IBM's decision was ethical? Probably many of you don't. You wonder how the company could be so heartless as to not give Richard Addessi's family the full benefits to which you believe they were entitled. Yet others might argue that IBM did the ethical thing by strictly following the rules laid out in its pension benefit plan. After all, being fair means applying the rules to everyone.

Let's examine why, while some ethical issues are easily solved, for many there are no clearly right or wrong answers. The ethical answers that managers choose depend on the ethical intensity of the decision, the moral development of the manager, and the ethical principles used to solve the problem.

3.1 Ethical Intensity of the Decision

Managers don't treat all ethical decisions the same. The manager who has to decide whether to deny or extend full benefits to Joan Addessi and her family is going to treat that decision much more seriously than the manager who has to deal with an assistant who has been taking computer disks home for personal use. The difference between these

ethical intensity

the degree of concern people have about an ethical issue

magnitude of consequences

the total harm or benefit derived from an ethical decision

social consensus

agreement on whether behaviour is bad or good

probability of effect

the chance that something will happen and then result in harm to others

temporal immediacy

the time between an act and the consequences the act produces

proximity of effect

the social, psychological, cultural, or physical distance between a decision maker and those affected by his or her decisions

concentration of effect

the total harm or benefit that an act produces on the average person

decisions is one of **ethical intensity**, which is how concerned people are about an ethical issue. When addressing issues of high ethical intensity, managers are more aware of the impact their decisions have on others. They are more likely to view the decision as an ethical or moral decision rather than an economic decision. They are also more likely to worry about doing the “right thing.”

Ethical intensity depends on six factors:²⁵

- magnitude of consequences
- social consensus
- probability of effect
- temporal immediacy
- proximity of effect
- concentration of effect

Magnitude of consequences is the total harm or benefit derived from an ethical decision. The more people who are harmed, or the greater the harm to those people, the larger the consequences. **Social consensus** is agreement on whether behaviour is bad or good. For example, other than the act of self-defence, most people agree that killing is wrong. However, people strongly disagree about whether abortions or the death penalty are wrong. **Probability of effect** is the chance that something will happen and then result in harm to others.

Temporal immediacy is the time between an act and the consequences the act produces. Temporal immediacy is stronger if a manager has to lay off workers next week as opposed to three months from now. **Proximity of effect** is the social, psychological, cultural, or physical distance of a decision maker to those affected by his or her decisions. In the previous example, proximity of effect would be greater for the manager who works with employees who are to be laid off than it would be for a staff person who works where no layoffs are occurring. Finally, whereas the magnitude of consequences is the total effect across all people, **concentration of effect** is how much an act affects the average person. Cheating 10 investors out of \$10 000 apiece is a greater concentration of effect than cheating 100 investors out of \$1000 apiece.

Many people will likely feel IBM was wrong to deny full benefits to Joan Addessi. Why? Because IBM’s decision met five of the six characteristics of ethical intensity. The difference in benefits (\$23 000 per year) is likely to have serious consequences on the family. The decision is certain to affect them. It will affect them immediately. We can closely identify with Joan Addessi and her daughters (as opposed to IBM’s faceless, nameless corporate identity). And the decision will have a concentrated effect on the family with regard to their monthly benefits (\$1800 and free medical coverage if you award full benefits versus \$340 a month and medical care coverage that costs \$473 per month if you don’t).

The exception, as we will discuss below, is social consensus. Not everyone will agree that IBM’s decision was unethical. The judgment also depends on your level of moral development and which ethical principles you use.

3.2 Moral Development

A friend has given you the latest version of Microsoft Word. She stuffed the computer disks in your backpack with a note saying that you should install it on your computer and get it back to her in a couple of days. You’re tempted. You have papers to write, notes to take, presentations to plan. Besides, all of your friends have the same version of Microsoft Word. They didn’t pay for it either. Copying the software to your hard drive without buying your own copy clearly violates copyright laws. But no one would find out. Even if they do, Microsoft isn’t going to come after you. Microsoft goes after the big fish, companies that illegally copy and distribute software to their workers. Your computer has booted up, and you’ve got your mouse in one hand and the installation disk in the other. What are you going to do?²⁶

In part, according to Lawrence Kohlberg, the decision will be based on your level of moral development. Kohlberg identified three phases of moral development, with two stages in each phase (see Exhibit 3.2).²⁷ At the **preconventional level of moral development**, people decide based on selfish reasons. For example, if you were in Stage 1, the punishment and obedience stage, your primary concern would be not to get in trouble. So you wouldn't copy the software. Yet, in Stage 2, the instrumental exchange stage, you make decisions that advance your wants and needs. So you copy the software.

People at the **conventional level of moral development** make decisions that conform to societal expectations. In Stage 3, the good boy–nice girl stage, you normally do what the other “good boys” and “nice girls” are doing. If everyone else is illegally copying software, you will, too. In the law and order stage, Stage 4, you do whatever the law permits, so you wouldn't copy the software.

People at the **post conventional level of moral development** always use internalized ethical principles to solve ethical dilemmas. In Stage 5, the legal contract stage, you would refuse to copy the software because, as a whole, society is better off when the rights of others—in this case, the rights of software authors and manufacturers—are not violated. In Stage 6, the universal principle stage, you might or might not copy the software, depending on your principles of right and wrong. Moreover, you will stick to your principles even if your decision conflicts with the law (Stage 4) or what others believe is best for society (Stage 5). For example, someone with socialist or communist beliefs would always choose to copy the software, because they view goods and services as owned by society rather than by individuals and corporations. (For information about the dos, don'ts, and legal issues concerning software piracy, see the Software Publisher's Association website [www.spa.org].)

Kohlberg originally predicted that people would progress sequentially from earlier stages to later stages. We now know that one's level of moral maturity can change, depending on individual and situational factors. As people age, become more educated, or deal with dilemmas high in ethical intensity, they are more likely to make ethical decisions using a higher level of moral maturity.

preconventional level of moral development
first level of moral development in which people make decisions based on selfish reasons

conventional level of moral development
second level of moral development in which people make decisions that conform to societal expectations

post conventional level of moral development
third level of moral development in which people make decisions based on internalized principles

PERSONAL PRODUCTIVITY TIP

The “Sleep Test”

Professors use fancy words like “utilitarian benefits” to describe ethical decision-making. However, practicing managers refer to something much simpler, the “sleep test.” “If I do this, can I sleep at night?” “Can I look at myself in the mirror in the morning?” “The bottom line is what you're comfortable with. I want ... to be able to both meet my house payments, and have some dignity left.” In short, if you're asked to do something that just “feels” wrong, sleep on it. If it still feels wrong in the morning, don't do it.

Sources: J.L. Badaracco, Jr. & A.P. Webb, “Business Ethics: A View from the Trenches,” *California Management Review* 37 (1995): 8–28.

EXHIBIT 3.2

KOHLBERG'S STAGES OF MORAL DEVELOPMENT

PRECONVENTIONAL LEVEL

- Stage 1: Punishment and Obedience
- Stage 2: Instrumental Exchange

CONVENTIONAL LEVEL

- Stage 3: Good Boy–Nice Girl
- Stage 4: Law and Order

POST CONVENTIONAL LEVEL

- Stage 5: Legal Contract
- Stage 6: Universal Principle

Source: W. Davidson III & D. Worrell, “Influencing Managers to Change Unpopular Corporate Behavior Through Boycotts and Divestitures,” *Business & Society* 34 (1995): 171–196.

3.3 Principles of Ethical Decision-Making

principle of long-term self-interest

ethical principle that holds that you should never take any action that is not in your or your organization's long-term self-interest

principle of personal virtue

ethical principle that holds that you should never do anything that is not honest, open, and truthful, and which you would not be glad to see reported in the newspapers or on TV

principle of religious injunctions

ethical principle that holds that you should never take any action that is not kind and that does not build a sense of community; a sense of everyone working together for a commonly accepted goal

principle of government requirements

ethical principle that holds that you should never take any action that violates the law, for the law represents the minimal moral standard

principle of utilitarian benefits

ethical principle that holds that you should never take any action that does not result in greater good for society. Instead, do whatever creates the greatest good for the greatest number

principle of individual rights

ethical principle that holds that you should never take any action that infringes on others' agreed-on rights

principle of distributive justice

ethical principle that holds that you should never take any action that harms the least among us: the poor, the uneducated, the unemployed

Besides an issue's ethical intensity and a manager's level of moral maturity, the particular ethical principles that managers use will also affect how they solve ethical dilemmas. Unfortunately, there is no one "ideal principle" by which to make ethical business decisions.

According to Professor Larue Hosmer, a number of different ethical principles can be used to make business decisions: long-term self-interest, personal virtue, religious injunctions, government requirements, utilitarian benefits, individual rights, and distributive justice.²⁸ What these ethical principles have in common is that they encourage managers and employees to take others' interests into account when making ethical decisions. At the same time, however, these principles can lead to very different ethical actions. This is illustrated by using these principles to decide whether to award full benefits to Joan Addessi and her children.

According to the **principle of long-term self-interest**, you should never take any action that is not in your or your organization's long-term self-interest. While it sounds as if the principle of self-interest promotes selfishness, it doesn't. What we do to maximize our long-term interests (save more, spend less, exercise every day, watch what we eat) is often very different from what we do to maximize short-term interests (max out our credit cards, be a couch potato, eat whatever we want). At any single time, IBM has nearly 1000 employees who are just months away from retirement. Thus, because of the costs involved, it serves IBM's long-term interest to pay full benefits only after employees have put in their 30 years.

The **principle of personal virtue** holds that you should never do anything that is not honest, open, and truthful, and which you would not be glad to see reported in the newspapers or on TV. Using the principle of personal virtue, IBM should have quietly awarded Joan Addessi her husband's full benefits. Had it done so, it could have avoided the publication of an embarrassing newspaper article on this topic.

The **principle of religious injunctions** holds that you should never take an action that is unkind or that harms a sense of community, such as the positive feelings that come from working together to accomplish a commonly accepted goal. Using the principle of religious injunctions, IBM would have been concerned foremost with compassion and kindness. Thus, it would have awarded full benefits to Joan Addessi.

According to the **principle of government requirements**, the law represents the minimal moral standards of society, so you should never take any action that violates the law.

The **principle of utilitarian benefits** states that you should never take any action that does not result in greater good for society. In short, you should do whatever creates the greatest good for the greatest number. At first, this principle suggests that IBM should award full benefits to Joan Addessi. However, if IBM did this with any regularity, the costs would be enormous, profits would shrink, and IBM's stock price would drop, harming countless shareholders, many of whom rely on IBM stock dividends for retirement income. So, in this case, the principle does not lead to a clear choice.

The **principle of individual rights** holds that you should never take any action that infringes on others' agreed-on rights. Using the principle of individual rights, IBM would deny Joan Addessi full benefits. If it carefully followed the rules specified in its pension plan, and if it permitted Mrs. Addessi due process, meaning the right to appeal the decision, then IBM would not be violating Mrs. Addessi's rights. In fact, it could be argued that providing full benefits to Mrs. Addessi would violate the rights of employees who had to wait 30 years to receive full benefits.

Finally, the **principle of distributive justice** is that you should never take any action that harms the least among us in some way. This principle is designed to protect the poor, the uneducated, and the unemployed. While Joan Addessi could probably find a job, it's

unlikely, after 20 years as a stay-at-home mom, that she could easily find one that would support herself and her daughters in the manner to which they were accustomed. Using the principle of distributive justice, IBM would award her full benefits.

As stated at the beginning of this chapter, one of the “real world” aspects of ethical decisions is that no matter what you decide, someone or some group will be unhappy with the decision. This corollary is also true: No matter how you decide, someone or some group will be unhappy. Consequently, despite the fact that all of these different ethical principles encourage managers to balance others’ needs against their own, they can also lead to very different ethical actions. So, even when managers strive to be ethical, there are often no clear answers when it comes to doing “the” right thing.

Review 3 Influences on Ethical Decision-Making

Three factors influence ethical decisions: the ethical intensity of the decision, the moral development of the manager, and the ethical principles used to solve the problem. Ethical intensity is strong when decisions have large, certain, immediate consequences, and when we are physically or psychologically close to those affected by the decision. There are three phases of moral maturity and two steps within each phase. At the preconventional level, decisions are made for selfish reasons. At the conventional level, decisions conform to societal expectations. At the post conventional level, internalized principles are used to make ethical decisions. Finally, managers can use a number of different principles when making ethical decisions: self-interest, personal virtue, religious injunctions, government requirements, utilitarian benefits, individual rights, and distributive justice.

4. Practical Steps to Ethical Decision-Making

Let’s examine how managers can encourage more ethical decision-making in their organizations. They can do this by carefully selecting and hiring new employees, establishing a specific code of ethics, training employees to make ethical decisions, and creating an ethical climate.

4.1 Selecting and Hiring Ethical Employees

As an employer, you can increase your chances of hiring honest people if you give job applicants integrity tests. **Overt integrity tests** estimate employee honesty by directly asking job applicants what they think or feel about theft or about punishment of unethical behaviours.²⁹ For example, an employer might ask an applicant, “Do you think you would ever consider buying something from somebody if you knew the person had stolen the item?” or “Don’t most people steal from their companies?” Surprisingly, because they believe that the world is basically dishonest and that dishonest behaviour is normal, unethical people will usually answer yes to such questions.³⁰

Personality-based integrity tests indirectly estimate employee honesty by measuring psychological traits such as dependability and conscientiousness. For example, prison inmates serving time for white-collar crimes (counterfeiting, embezzlement, and fraud) scored much lower than a comparison group of middle-level managers on scales measuring reliability, dependability, honesty, and being conscientious and rule-abiding.³¹ These results show that companies can selectively hire and promote people who will be more ethical.³²

For more on integrity testing, see the “What Really Works” feature in this chapter.

Could You Tell Your Parents or the Public?

Besides the sleep test, managers also judge the ethics of what they’re doing by trying to anticipate how others would view their actions. One manager said, “Ummm... This is going to sound trite. But if you can comfortably tell your parents, I think you are probably doing the right thing.” Or “Can you tell your grandfather about it and be proud?” Practising managers were also aware of the importance of how their choices were viewed by the general public. Said one manager, “If you wouldn’t share it with ‘CBC News’ cameras, don’t do it.”

Sources: J.L. Badaracco, Jr. & A.P. Webb, “Business Ethics: A View from the Trenches,” *California Management Review* 37 (1995): 8–28.



A variety of approaches can be used to foster ethical and socially responsible behaviours. Interact with four of these approaches at our animated concept and activity site. Choose Ethics & Social Responsibility from the “select a topic” pull-down menu, then Fostering Social Responsibility from the “overview tab.”

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overt integrity test

written test that estimates employee honesty by directly asking job applicants what they think or feel about theft or about punishment of unethical behaviours

personality-based integrity test

written test that indirectly estimates employee honesty by measuring psychological traits such as dependability and conscientiousness

WhatReallyWorks

Integrity Tests

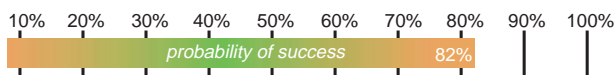
In some cases and in some countries, unethical employee behaviour can lead to multimillion-dollar fines for corporations. Moreover, workplace deviance, such as stealing, fraud, and vandalism, can cost companies an estimated \$200 billion a year. One way to reduce workplace deviance and the chance of a large fine for unethical employee behaviour is to use overt and personality-based integrity tests to screen job applicants.

One hundred eighty-one studies, with a combined total of 576 460 study participants, have examined how well job performance and various kinds of workplace deviance are predicted by integrity tests. Not only do these studies show that integrity tests can help companies reduce workplace deviance, but they have the added bonus of helping companies hire workers who are better performers in their jobs.

Workplace Deviance (Counterproductive Behaviours)

Compared to job applicants who score poorly, there is an 82 percent chance that job applicants who score well on overt integrity tests will participate in less illegal activity, unethical behaviour, drug abuse, or workplace violence.

Overt Integrity Tests & Workplace Deviance



Personality-based integrity tests also do a good job of predicting who will engage in workplace deviance. Compared to job applicants who score poorly, there is a 68 percent chance that job applicants who score well on personality-based integrity tests will participate in less illegal activity, unethical behaviour, excessive absences, drug abuse, or workplace violence.

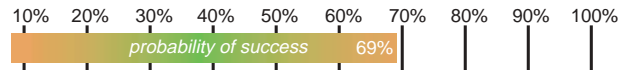
Personality-Based Integrity Tests & Workplace Deviance



Job Performance

Integrity tests not only reduce unethical behaviour and workplace deviance, but they also help companies hire better performers. Compared to employees who score poorly, there is a 69 percent chance that employees who score well on overt integrity tests will be better performers.

Overt Integrity Tests & Job Performance



The figures are nearly identical for personality-based integrity tests. Compared to those who score poorly, there is a 70 percent chance that employees who score well on personality-based integrity tests will be better at their jobs.

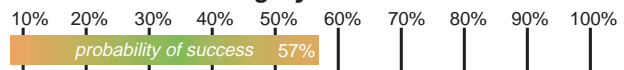
Personality-Based Integrity Tests & Job Performance



Theft

While integrity tests can help companies decrease most kinds of workplace deviance and increase employees' job performance, they have a smaller effect on a specific kind of workplace deviance: theft. Compared to employees who score poorly, there is a 57 percent chance that employees who score well on overt integrity tests will be less likely to steal. No theft data were available to assess personality-based integrity tests.

Overt Integrity Tests & Theft



Source: D.S. Ones, C. Viswesvaran, & F.L. Schmidt, "Comprehensive Meta-Analysis of Integrity Test Validities: Findings and Implications for Personnel Selection and Theories of Job Performance," *Journal of Applied Psychology* 78 (1993): 679-703.

4.2 Codes of Ethics

As shown in Exhibit 3.3, Shell Canada (www.shell.ca) has had in place a set of business principles and code of ethics for over 30 years.³³

Today, nine out of ten large corporations have an ethics code in place.³⁴ However, two things must happen if those codes are to encourage ethical decision-making and behaviour. First, companies must communicate the codes to others both within and outside the company. An excellent example of a well-communicated code of ethics can be found at Nortel Networks' Internet site (www.nortelnetworks.com). Anyone inside or outside the company can quickly and easily obtain detailed information about the company's core values, specific ethical business practices, and much more.

Second, in addition to general guidelines and ethics codes such as "Do unto others as you would have others do unto you," management must also develop practical ethical standards and procedures specific to the company's line of business. Visitors to Nortel

Consider Ethics from the Start

Many jobs begin with a short honeymoon period in which you're excited and still relatively idealistic. This is a good time to write down your thoughts about the ethical aspects of the job. Start positive. Describe your ethical aspirations (e.g., satisfied customers) and what you will do to accomplish them (e.g., be completely honest). Then go negative. Describe parts of the job in which you fear that your ethics may be compromised. Then describe unethical behaviours that people may perform on the job (so you can avoid them). Review these lists occasionally to determine if your ethics are what you wanted them to be.

Source: David M. Porter, Jr., The Anderson School, University of California, Los Angeles, from his review of this chapter, 22 January 1997.

Networks' Internet site can instantly access references to 36 specific ethics codes, ranging from bribes and kickbacks to expense vouchers and illegal copying of software. For example, most business people believe that it is wrong to take bribes or other gifts from a company that wants your business. Therefore, one of Nortel Network's ethical guidelines is "Under no circumstances is it acceptable to offer, give, solicit, or receive any form of bribe, kickback, or inducement. This principle applies to Nortel Networks transactions everywhere in the world, even where the practice is widely considered 'a way of doing business.'" Specific codes of ethics such as these make it much easier for employees to decide what they should do when they want to do the "right thing."

4.3 Ethics Training

The first objective of ethics training is to develop employee awareness about ethics.³⁵ This means helping employees recognize what issues are ethical issues, and then avoid the rationalization of unethical behaviour: "This isn't really illegal or immoral" or "No one will ever find out."

EXHIBIT 3.3

SHELL CANADA'S STATEMENT OF GENERAL BUSINESS PRINCIPLES

Shell's Statement of General Business Principles sets out the company's objectives and its responsibilities to various stakeholders—shareholders, customers, employees, those individuals or organizations with whom it does business and society in general. The code of ethics covers

- Business integrity (including conflict of interest; gifts, entertainment, and bribery; the integrity of the company's financial information; protection and use of property; business controls; confidential information; insider trading; and timely disclosure).
- Health, safety, and the environment.
- Competition law.
- Political activities.

The conduct required by this code means that all employees will

- Act with honesty and integrity and be open in dealings with all stakeholders;
- Treat others with fairness, dignity, and respect to create and protect a trusting environment free from harassment and discrimination; and
- Strive for excellence and professionalism, taking pride in what they do individually and as part of a team.

Although the code of ethics provides some specific examples of ethical conduct, employees are cautioned that the examples are not exhaustive and that they must use their best judgment in the application of Shell's Business Principles and Code of Ethics. They are also encouraged to consult with their supervisor. In assessing whether a situation might contravene the principles or code, employees should consider whether

- The conduct is legal.
- The conduct violates Shell's policies or procedures.
- The conduct is within Shell's authorized system of business controls.
- The results of the conduct would be fair in both the short and long term.
- The conduct would meet Shell's responsibilities to its stakeholders.
- The disclosure of such conduct, internally, would not be of concern.
- The public would consider the conduct to be honest and ethical.

Source: Courtesy Shell Canada Limited. Available www.shell.ca, 21 October 2002.

The second objective for ethics training programs is to achieve credibility with employees. Not surprisingly, employees can be highly suspicious of management's reasons for offering ethics training. At one telecommunications company, employees initially assumed that management instituted the program to get employees to "rat" on each other. So they labelled the program "1-800-SNITCH."³⁶ One of the ways in which companies mistakenly hurt the credibility of their ethics programs is by having outside instructors and consultants conduct the classes. Employees often complain that outside instructors and consultants are teaching theory that has nothing to do with their jobs and the "real world." Seeking to regain credibility with its workers, this company avoided this problem by having supervisors conduct 30-minute "tailgate" sessions in which they could literally begin the training by talking to their workers from atop a truck tailgate rather than a classroom.

The third objective of ethics training is to teach employees a practical model of ethical decision-making. A basic model should help them think about the consequences their choices will have on others and consider how they will choose between different solutions. Exhibit 3.4 presents a basic model of ethical decision-making.

4.4 Ethical Climate

In study after study in which researchers have asked, "What is the most important influence on your ethical behaviour at work?" the answer comes back, "My manager." The first step in establishing an ethical climate is for managers to act ethically themselves. Managers who decline to accept lavish gifts from company suppliers; who use the company phone, fax, and copier only for business and not personal use; or who keep their

EXHIBIT 3.4

A BASIC MODEL OF ETHICAL DECISION-MAKING

1. Identify the problem.
What makes it an ethical problem? Think about rights, obligations, fairness, relationships, and integrity. How would you define the problem if you stood on the other side of the fence?
2. Identify the constituents.
Who has been hurt? Who could be hurt? Who could be helped? Are they willing players, or are they victims? Can you negotiate with them?
3. Diagnose the situation.
How did it happen in the first place? What could have prevented it? Is it going to get worse or better? Can the damage now be undone?
4. Analyze your options.
Imagine the range of possibilities. Limit yourself to the two or three most manageable. What are the likely outcomes of each? What are the likely costs? Look to the company mission statement or code of ethics for guidance.
5. Make your choice.
What is your intention in making this decision? How does it compare with the probable results? Can you discuss the problem with the affected parties before you act? Could you disclose without qualm your decision to your boss, the CEO, the board of directors, your family, or society as a whole?
6. Act.
Do what you have to do. Don't be afraid to admit errors. Be as bold in confronting a problem as you were in causing it.

Source: L.A. Berger, "Train All Employees to Solve Ethical Dilemmas," *Best's Review-Life-Health Insurance Edition* 95 (1995): 70–80.

promises to employees, suppliers, and customers encourage others to believe that ethical behaviour is normal and acceptable. Although transgressions such as these may appear to be obvious to many readers, thousands of former Enron and Tyco employees may have reason to suspect that a number of their former senior managers did not take the idea of an ethical work climate very seriously.

A second step in establishing an ethical climate is for top management to be active in the company ethics program. Shell Canada believes that its reputation and credibility are based on its total commitment to ethical business practices.³⁷ Top management must play an active leadership role in the establishment of an ethical climate. For example, Harold Lemieux is the “custodian” of Shell Canada’s business principles and code of ethics at Shell Canada Limited. However Lemieux, who is the vice president, general counsel, and secretary of the company, assumes this role on behalf of the entire senior management team. The team also includes (at the time of writing) the president and chief executive officer, Tim Faithfull, and the vice presidents of Shell’s three major business units. As a member of the Royal Dutch/Shell Group of companies, Shell Canada shares one of the world’s most recognizable emblems. Faithfull sends an annual letter of assurance to the group’s London office stating that Shell Canada Limited has conducted its business ethically and in accordance with its business principles. “We established a set of business principles and code of ethics almost 30 years ago and today, perhaps more than ever, these standards for ethical behaviour are our best safeguard against wrongdoing,” Faithfull says. “By knowing and following these standards, we protect our own individual reputation and the reputation of the company. We actively encourage openness at all levels through an annual employee survey, which includes questions about the ethical standards of the individual work groups. We have also created an ombuds position to whom employees can take their concerns in complete confidence.”

A third step is to put in place a reporting system that encourages managers and employees to report potential ethics violations. **Whistle blowing**—that is, reporting others’ ethics violations, is a difficult step for most people to take and occasionally results in unwanted public visibility for the whistle blower. One example of a high-profile Canadian case involved accusations by the former chief financial officer of Livent Inc. of accounting audit irregularities of Livent’s books by the accounting firm Deloitte & Touche.³⁸

whistle blowing
reporting others’ ethics
violations to management
or legal authorities

Potential whistle blowers often fear that they will be punished rather than the ethics violators.³⁹ Managers who have been interviewed about whistle blowing have said, “In every organization, someone’s been screwed for standing up.” “If anything, I figured that by taking a strong stand I might get myself in trouble. People might look at me as a ‘goody two shoes.’ Someone might try to force me out.” Today, some companies, like Northrup Grumman, a defence contractor, have made it easier to report possible violations by establishing anonymous toll-free corporate ethics hot lines. However, the factor that does the most to discourage whistle blowers is lack of company action on their complaints.⁴⁰ Thus, the final step in developing an ethical climate is for management to fairly and consistently punish those who violate the company’s code of ethics.

Review 4

Practical Steps to Ethical Decision-Making

Employers can increase the chances of hiring more ethical employees by administering overt integrity tests and personality-based integrity tests to all job applicants. Most large companies now have corporate codes of ethics. But for those codes to affect ethical decision-making, they must be known both inside and outside the organization. In addition to offering general rules, ethics codes must also offer specific, practical advice. Ethics training seeks to make employees aware of ethical issues, to make ethics a serious, credible factor in organizational decisions, and to teach employees a practical model of ethical decision-making. The most important factors in creating an ethical business climate

are the personal examples set by company managers, involvement of management in the company ethics program, a reporting system that encourages whistle blowers to report potential ethics violations, and fair but consistent punishment of violators.

What Is Social Responsibility?

social responsibility

a business's obligation to pursue policies, make decisions, and take actions that benefit society.

Social responsibility is a business's obligation to pursue policies, make decisions, and take actions that benefit society.⁴¹ Unfortunately, because there are strong disagreements over to whom and for what in society organizations are responsible, it can be difficult for managers to know what is or will be perceived as socially responsible corporate behaviour. One example involves many Canadian retail organizations such as London Drugs, Pharmaprix, and Shoppers Drug Mart that are struggling with the issue of selling tobacco products alongside other store offerings intended to promote and preserve good health. If you are reading this while sitting in a Canadian university lecture hall, you are probably concerned about tuition hikes. A challenge for almost all Canadian university administrators is deciding where to draw the line with tuition levels given the financial constraints imposed on academic institutions because of government funding cutbacks. At what point does education no longer remain affordable for the masses? Another

example, Gillette Corporation's (www.gillette.com) use of rats and rabbits for product testing continues to draw protests from PETA (People for the Ethical Treatment of Animals (www.peta-online.org/)) and from elementary school teachers who encourage their students to write directly to Gillette. In one such letter, a 13-year-old wrote, "Would you like it if someone put acids in your eyes and shoved cleaning materials down your throat?" In response to complaints, Gillette now spends about a million dollars a year on alternatives to animal testing. However, Gillette argues that eliminating animal testing altogether would be socially irresponsible, because it is critical to producing a safe product for its customers. Furthermore, if a product liability lawsuit were to be filed against the company, its best legal defence would be the scientific testing it performs on rats and rabbits.⁴²

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Organizations are expected to benefit in many ways beyond simply providing jobs. To learn more about social responsibilities of organizations, visit our animated concept and activity site. Choose Ethics & Social Responsibility from the "select a topic" pull-down menu, then Social Responsibility from the "overview tab."

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After reading the next four sections, you should be able to explain

5. to whom organizations are socially responsible.
6. for what organizations are socially responsible.
7. how organizations can choose to respond to societal demands for social responsibility.
8. whether social responsibility hurts or helps an organization's economic performance.

5. To Whom Are Organizations Socially Responsible?

There are two perspectives on to whom organizations are socially responsible: the shareholder model and the stakeholder model. According to Nobel prize-winning economist Milton Friedman, the only social responsibility that organizations have is to satisfy their owners, that is, company shareholders. This view—called the **shareholder model**—holds that the only social responsibility that businesses have is to maximize profits. By maximizing profit, the firm maximizes shareholder wealth and satisfaction. More specifically, as profits rise, the company stock owned by company shareholders generally increases in value. For example, the year after Microsoft (www.microsoft.com) released its Windows 95 operating software, company earnings increased by 45 percent over the previous year. During this time, Microsoft's stock rebounded from a low of \$58.25 to \$90, increasing the wealth of Microsoft shareholders by 54.5 percent.

Friedman argues that it is socially irresponsible for companies to divert their time, money, and attention from maximizing profits to social causes and charitable organizations. The first problem he sees is that organizations cannot act effectively as moral agents for all company shareholders. While shareholders are likely to agree on investment issues

shareholder model

view of social responsibility that holds that an organization's overriding goal should be profit maximization for the benefit of shareholders

concerning a company, it's highly unlikely that they possess common views on what social causes a company should or should not support. For example, after 25 years of support, one large telecommunications provider announced that it would no longer provide cash grants to Planned Parenthood. A company spokesperson said that "eighty percent of the decision to stop funding Planned Parenthood was based on its ever-increasing political nature, and its increasing attention to a very divisive issue [abortion]."⁴³ Rather than act as moral agents, Friedman argues that companies should maximize profits for shareholders. Shareholders can then use their time and increased wealth to contribute to the social causes, charities, or institutions they want, rather than those that companies want.

The second major problem, according to Friedman, is that the time, money, and attention diverted to social causes undermine market efficiency. In competitive markets, companies compete for raw materials, talented workers, customers, and investment funds. Spending money on social causes means there is less money to purchase quality materials or to hire talented workers who can produce a valuable product at a good price. If customers find the product less desirable, sales and profits will fall. If profits fall, stock prices will decrease and the company will have difficulty attracting investment funds that could be used to fund long-term growth. In the end, Friedman argues, diverting the firm's money, time, and resources to social causes hurts customers, suppliers, employees, and shareholders.

By contrast, under the **stakeholder model**, management's most important responsibility is long-term survival (not just maximizing profits), which is achieved by satisfying the interests of multiple corporate stakeholders (not just shareholders). **Stakeholders** are people or groups with a legitimate interest in a company.⁴⁴ Since stakeholders are interested in and affected by the organization's actions, they have a "stake" in what those actions are. Consequently, stakeholder groups may try to influence the firm to act in their own interests. Exhibit 3.5 shows the various stakeholder groups that the organization must satisfy to ensure long-term survival.

stakeholder model

theory of corporate responsibility that holds that management's most important responsibility, long-term survival, is achieved by satisfying the interests of multiple corporate stakeholders

stakeholders

persons or groups with a "stake" or legitimate interest in a company's actions

EXHIBIT 3.5

STAKEHOLDER MODEL OF CORPORATE SOCIAL RESPONSIBILITY



Source: Academy of Management Review by T. Donaldson & L.E. Preston. Copyright 1995 by Academy of Management. Reproduced with permission of the publisher via Copyright Clearance Center.

primary stakeholder
any group on which an organization relies for its long-term survival

secondary stakeholder
any group that can influence or be influenced by the company and can affect public perceptions about its socially responsible behaviour

Being responsible to multiple stakeholders raises two basic questions. First, how does a company identify organizational stakeholders? Second, how does a company balance the needs of different stakeholders? Distinguishing between primary and secondary stakeholders can answer these questions.⁴⁵

Some stakeholders are more important to the firm's survival than others. **Primary stakeholders** are groups, such as shareholders, employees, customers, suppliers, governments, and local communities, on which the organization depends for long-term survival. So when managers are struggling to balance the needs of different stakeholders, the stakeholder model suggests that the needs of primary stakeholders take precedence over the needs of secondary stakeholders. However, contrary to the shareholder model, no primary stakeholder group is more or less important than another, since all are critical to the firm's success and survival. So managers must try to satisfy the needs of all primary stakeholders. The issues important to primary stakeholders are noted below in Exhibit 3.6. For example, responding to concerns from car manufacturers, consumers, environmental groups, and proposed government legislation, Irving Oil Ltd. of Saint John, New Brunswick, "became the first gasoline refiner in the country to get a thumbs-up from the Canadian Vehicle Manufacturers Association for its new 'green' gas."⁴⁶ Irving Oil (www.irvingoil.com) reduced the sulphur content in its gas to 150 parts per million (ppm) down from the Canadian average of 360 ppm and an Ontario average of 560 ppm. Despite significant refinery upgrading costs, this and other improvements positioned the company as the first in Canada to offer consumers cleaner-burning fuel that does not clog the sophisticated pollution control devices in newer vehicles.⁴⁷

Secondary stakeholders, such as the media and special interest groups, can influence or be influenced by the company. Yet in contrast to primary stakeholders, they do not engage in regular transactions with the company and are not critical to its long-term survival. Consequently, meeting the needs of primary stakeholders is usually more important than meeting the needs of secondary stakeholders. While not critical to long-term survival, secondary stakeholders are still important, because they can affect public perceptions

EXHIBIT 3.6

ISSUES IMPORTANT TO PRIMARY STAKEHOLDERS

COMPANY

Company history, industry background, organization structure, economic performance, competitive environment, mission or purpose, corporate codes, stakeholder and social-issues management systems.

EMPLOYEES

Benefits, compensation and rewards, training and development, career planning, employee assistance programs, health promotion, absenteeism and turnover, leaves of absence, relationships with unions, dismissal and appeal, termination, layoffs, retirement and termination counselling, employment equity and discrimination, women in management and on the board, day care and family accommodation, employee communication, occupational health and safety, and part-time, temporary, or contract employees.

SHAREHOLDERS

Shareholder communications and complaints, shareholder advocacy, shareholder rights, and other shareholder issues.

CUSTOMERS

Customer communications, product safety, customer complaints, special customer services, and other customer issues.

SUPPLIERS

Relative power, general policy, and other supplier issues.

PUBLIC STAKEHOLDERS

Public health, safety, and protection, conservation of energy and materials, environmental assessment of capital projects, other environmental issues, public policy involvement, community relations, social investment and donations.

Source: M.B.E. Clarkson, "A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance," *Academy of Management Review* 20 (1995): 92–117.

and opinions about socially responsible behaviour. For instance, many Canadians wore fur coats up until the early 1980s. However, soon after that, public perceptions about the treatment of animals and the fur industry in general had turned negative as a result of environmental groups publicizing the cruel manner by which many animals were being trapped in the wilderness, clubbed on ice floes, or raised on farms. Consequently, many stores stopped selling furs.

So to whom are organizations socially responsible? Many, especially economists and financial analysts, continue to argue that organizations are responsible only to shareholders. However, many top managers have increasingly come to believe that they and their companies must be socially responsible to their stakeholders.⁴⁸ Surveys show that as many as 80 percent of top-level managers believe that it is unethical to focus just on shareholders. So while there is not complete agreement, a majority of opinion makers would make the case that companies must be socially responsible to their stakeholders.

EXPERIENCING MANAGEMENT

WWW

Different stakeholders have differing interests in the organization's social responsibilities. To interact with stakeholder issues, visit our animated concept and activity site. Choose Ethics & Social Responsibility from the "select a topic" pull-down menu, then Responsibility to Stakeholders from the "overview tab."

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Review 5

To Whom Are Organizations Socially Responsible?

Social responsibility is a business's obligation to benefit society. Who are organizations socially responsible to? According to the shareholder model, the only social responsibility that organizations have is to maximize shareholder wealth by maximizing company profits. According to the stakeholder model, companies must satisfy the needs and interests of many corporate stakeholders, not just shareholders. However, the needs of primary stakeholders, on which the organization relies for its existence, take precedence over those of secondary stakeholders.

6. For What Are Organizations Socially Responsible?

If organizations are to be socially responsible to stakeholders, just what are they to be socially responsible for? As illustrated in Exhibit 3.7, companies can best benefit their stakeholders by fulfilling their economic, legal, ethical, and discretionary responsibilities.⁴⁹



Environmentalists from Rainforest Relief and Wetlands Rainforest Action Group hold up a banner outside a Home Depot store. Protesters convinced the company to quit selling wood and wood products from threatened old-growth forests.

AP/Wide World Photos

Exhibit 3.7 indicates that economic and legal responsibilities play a larger part in a company's social responsibility than do ethical and discretionary responsibilities. However, the relative importance of economic, legal, ethical, and discretionary responsibilities depends on the expectations that society has toward corporate social responsibility at a particular point in time.⁵⁰ A century ago, society expected businesses to meet their economic and legal responsibilities and little else. Today, however, when society judges whether businesses are socially responsible, ethical and discretionary responsibilities are considerably more important than they used to be.

economic responsibility
the expectation that a company will make a profit by producing a valued product or service

legal responsibility
the expectation that a company will obey society's laws and regulations

ethical responsibility
the expectation that a company will not violate accepted principles of right and wrong when conducting its business

discretionary responsibilities
the expectation that a company will voluntarily serve a social role beyond its economic, legal, and ethical responsibilities

Historically, economic responsibility, making a profit by producing a product or service valued by society, has been a business's most basic social responsibility. Organizations that don't meet their financial and economic expectations come under tremendous pressure. For example, company boards are very, very quick these days to fire CEOs. Typically, all it takes is two or three bad quarters in a row. William Rollnick, who became acting chairman of Mattel after the company fired CEO Jill Barad, said, "There's zero forgiveness. You screw up and you're dead." Indeed, at least 38 of the largest 200 firms in North America have got rid of their CEOs between 2000 and 2003.⁵¹

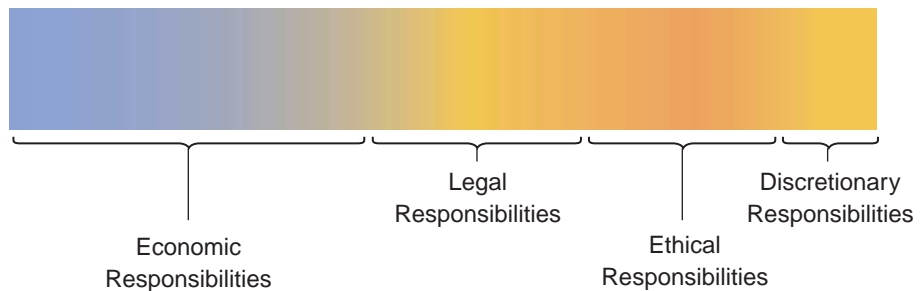
Historically, **economic responsibility**, making a profit by producing a product or service valued by society, has been a business's most basic social responsibility. Organizations that don't meet their financial and economic expectations come under tremendous pressure. **Legal responsibility** is the expectation that companies will obey a society's laws and regulations as they try to meet their economic responsibilities.

Ethical responsibility is society's expectation that organizations will not violate accepted principles of right and wrong when conducting their business. Because different stakeholders may disagree about what is or is not ethical, meeting ethical responsibilities is more difficult than meeting economic or legal responsibilities. **Discretionary responsibilities** pertain to the social roles that businesses play in society beyond their economic, legal, and ethical responsibilities. For example, MasterCard and its cardholders have teamed up with Canadian organizations such as the Juvenile Diabetes Research Foundation (www.jdrf.org), the Ontario Soccer Association (www.soccer.on.ca), and Scouts Canada (www.scouts.ca), to support research, minor soccer, and the scouting movement respectively.⁵² Every time someone uses a MasterCard credit card to make a

EXHIBIT 3.7

SOCIAL RESPONSIBILITIES

Total Social Responsibilities



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purchase, MasterCard donates a small percentage of the purchase to the designated affinity partners. While the amounts per transaction may be small, the thousands of purchases made yearly by affinity cardholders (3000 in the case of Scouts Canada⁵³) can prove to be extremely valuable to any organization over time. Discretionary responsibilities are voluntary. Companies will not be considered unethical if they don't perform them. However, today, corporate stakeholders expect companies to do much more than in the past to meet their discretionary responsibilities.

Review 6

For What Are Organizations Socially Responsible?

Companies can best benefit their stakeholders by fulfilling their economic, legal, ethical, and discretionary responsibilities. Being profitable, or meeting one's economic responsibility, is a business's most basic social responsibility. Legal responsibility consists of following a society's laws and regulations. Ethical responsibility means not violating accepted principles of right and wrong when doing business. Discretionary responsibilities are social responsibilities beyond basic economic, legal, and ethical responsibilities.

7. Responses to Demands for Social Responsibility

Social responsiveness is the strategy chosen by a company to respond to stakeholders' economic, legal, ethical, or discretionary expectations concerning social responsibility. A social responsibility problem exists whenever company actions do not meet stakeholder expectations. One model of social responsiveness, shown in Exhibit 3.8, identifies four strategies for responding to social responsibility problems: reactive, defensive, accommodative, and proactive. These strategies differ in the extent to which the company is willing to act to meet or exceed society's expectations.

A company using a **reactive strategy** will do less than society expects. It may deny responsibility for a problem or "fight all the way" any suggestions that the company should solve a problem. For example, *Consumer Reports* magazine (www.consumerreports.org) came out with a report showing that the Suzuki Samurai would tip over when drivers changed lanes or went around corners at normal speeds. The Samurai, a four-wheel-drive vehicle, was easy to tip over because it was a lightweight vehicle with a high centre of gravity and a narrow wheelbase. Rather than admit this safety problem, Suzuki Corporation immediately embarked on a multimillion-dollar television advertising campaign to dispute *Consumer Reports'* findings.⁵⁴

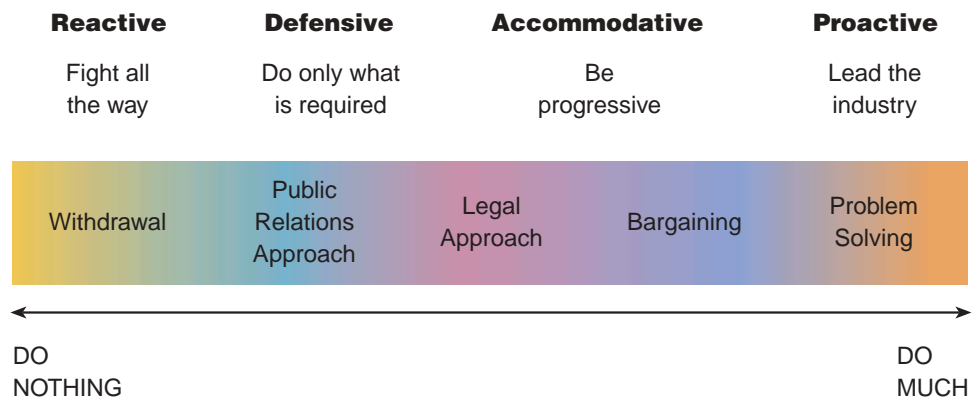
By contrast, a company using a **defensive strategy** would admit responsibility for a problem, but would do the least required to meet societal expectations. For example, when the sudden and unpredictable tread separation problems associated with Firestone ATX tires first became public knowledge, Firestone's response was to deny that there were problems (a reactive strategy). However seven months later, when public fury over the problem grew intense, Firestone recalled 6.5 million of the 15-inch ATX tires. However, Firestone angered lawmakers by refusing to recall all the tires recommended by the U.S. National Highway Traffic Safety Administration (www.nhtsa.gov) (a defensive strategy).⁵⁵ Firestone also frustrated and angered consumers at that time by proposing a "phased rollout," in which it would first replace tires in southern and western states—where higher temperatures seemed to be related to the problems. Steven Fink, president of Lexicon Communications, a crisis management consulting firm, criticized Firestone's response: "After they announced the recall, they were not prepared to deal with it. They were telling consumers they will have to wait up to a year to get tires."⁵⁶ In fact, Firestone's crisis management firm was so frustrated with the company's refusal to admit the problem and quickly act to restore consumer confidence (by immediately apologizing and quickly recalling and replacing all tires) that it quit.⁵⁷

social responsiveness
the strategy chosen by a company to respond to stakeholders' economic, legal, ethical, or discretionary expectations concerning social responsibility

reactive strategy
a social responsiveness strategy where a company chooses to do less than society expects and to deny responsibility for problems

defensive strategy
a social responsiveness strategy where a company chooses to admit responsibility for a problem but do the least required to meet societal expectations

SOCIAL RESPONSIVENESS



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accommodative strategy
a social responsiveness strategy where a company chooses to accept responsibility for a problem and do all that society expects to solve problems

proactive strategy
a social responsiveness strategy where a company anticipates responsibility for a problem before it occurs and would do more than society expects to address the problem

A company using an **accommodative strategy** would accept responsibility for a problem and take a progressive approach by doing all that was expected to solve the problem. For example, in 1997 Noranda (www.noranda.com) was faced with the difficult task of having to close two mines in Quebec prior to opening a new mine two years later. A creative employment and benefits package constructed by Noranda and a number of government agencies allowed 70 employees to upgrade their skills and further their education while waiting for the new mine to re-open.⁵⁸ In contrast to Suzuki, Nissan Motors took an accommodative strategy when it voluntarily recalled 33 000 minivans sold in North America that were prone to catch fire when the engine's fan belt broke. Nissan spent approximately \$70 million Cdn to fix the vans, installing a brand-new heavy-duty cooling system with warning lights in each vehicle. However, it also reimbursed customers for 900 vans that were beyond repair. Then it destroyed the 900 vans, so that they could not be resold to unsuspecting used-car buyers. To maintain customers' goodwill, Nissan also made other major repairs on the vans, such as air conditioning or transmission repairs, for free.⁵⁹

Finally, a company using a **proactive strategy** would anticipate responsibility for a problem before it occurred, do more than expected to address the problem, and lead the industry in its approach. For example, Andrew Benedek, founder and CEO of Zenon Environmental Inc. (www.zenonenv.com), understood that much of the world's population has limited access to clean drinking water. Using cell membrane technology, his company developed water filtration products used in 40 countries that purify water without the use of harmful chemicals. His firm also "donated a micro filtration-based water purification plant to the Temagami First Bear Nation in Bear Island Ontario" which in turn "reduced high incidence of giardiasis or 'beaver fever.'"⁶⁰

Review 7

Responses to Demands for Social Responsibility

Social responsiveness is a company response to stakeholders' demands for socially responsible behaviour. There are four social responsiveness strategies. When a company uses a reactive strategy, it denies responsibility for a problem. When it uses a defensive strategy, it takes responsibility for a problem, but does the minimum required to solve it. When a company uses an accommodative strategy, it accepts responsibility for problems and does all that society expects to solve them. Finally, when a company uses a proactive strategy, it does much more than expected to solve social responsibility problems.



CP (Boris Spremo)

This recycled waste paper in Toronto is ready for shipment to a processing plant. Recycling is one example of social responsibility being profitable.

8. Social Responsibility and Economic Performance

One question that managers often ask is “Does it pay to be socially responsible?” While this is an understandable question, asking whether social responsibility pays is a bit like asking if giving to your favourite charity will help you get a better-paying job. The obvious answer is no. There is not an inherent relationship between social responsibility and economic performance. Yet a number of ethical or socially responsible investment vehicles are available to Canadians. These include mutual funds such as the Meritas Fund, Manulife’s Canadian Balance Ethics fund, and 12 funds from Ethical Funds Inc.⁶¹ Not surprisingly, many investors do “put their money where their mouths are.” In Canada alone, one recent estimate suggests Canadians support socially responsible investments to the tune of almost \$50 billion or 3 percent of the Canadian mutual fund market.⁶² Further, between 1998 and 2000, social investment assets grew at more than twice the rate of the Canadian mutual fund industry as a whole.⁶³ Supporters of corporate social responsibility also claim a positive relationship. For example, in Canada, the Jantzi Social Index (www.mjra-jsi.com), claims to have outperformed the TSE 60 in its first year of operation.⁶⁴ On the other hand, critics have plenty of facts to support their claim that social responsibility hurts economic performance. For example, another study of 42 socially responsible mutual funds found that the socially responsible companies under-performed the Standard and Poor’s 500 by 8 percent.⁶⁵

When it comes to social responsibility and economic performance, the first reality is that it can sometimes cost a company significantly if it chooses to be socially responsible. During the 1980s, American multinational corporations were under intense public pressure to withdraw their operations from South Africa. Political activists argued that if businesses withdrew from South Africa, the white-controlled government would be hurt economically. Thus it would be more difficult for it to maintain its system of apartheid against black South Africans. Many companies chose to pull their businesses out of South Africa. Yet when they did, they paid a steep price, selling corporate land, buildings, and equipment at a fraction of their value. Furthermore, within days of announcing that they were leaving South Africa, their company stock price dropped an average of 5.5 percent.⁶⁶ Here, socially responsible behaviour not only harmed the company financially, but harmed its shareholders financially, too. Nonetheless, hundreds of top managers still

felt it was the right thing to do. In Canada one might argue that Petro-Canada (www.petrocanada.com) gave up potentially large future revenues when it chose to forfeit its undersea mineral rights in the vicinity of the Queen Charlotte Islands off the coast of British Columbia in order to help preserve the wildlife eco-system.⁶⁷

The second reality of social responsibility and economic performance is that sometimes it does pay to be socially responsible. Zenon Environmental Inc.'s water purification technology based on cell membranes was responsible for \$125 million in revenues in 2001.⁶⁸ Another good example is Ben & Jerry's Homemade Ice Cream. Ben & Jerry's started in 1978 when founders Ben Cohen and Jerry Greenfield mailed away for a \$5 course on how to make ice cream. Today, Ben & Jerry's is as well known for its super premium ice cream as it is for its reputation as a socially responsible company. Ben & Jerry's donates 7.5 percent of its pretax profits to social causes: to charitable groups supporting AIDS patients, the homeless, and the environment.⁶⁹ The company buys brownies from a bakery that employs homeless workers and blueberries from Native North American Indian tribes. Moreover, customers buy Ben & Jerry's ice cream because it tastes great and because they want to support a socially responsible company. As Ben Cohen says, "We see ourselves as somewhat of a social service agency and somewhat of an ice cream company."⁷⁰

The third reality of social responsibility and economic performance is that while socially responsible behaviour may be "the right thing to do," it does not guarantee profitability. Socially responsible companies experience the same ups and downs in economic performance that traditional businesses do. For example, after a year in which neither market share nor profits grew and the company's stock dropped 72 percent in value, Ben Cohen announced that he was stepping aside as Ben & Jerry's CEO. A "professional manager" who is now charged with turning around the company's financial performance replaced him. Ben & Jerry's is now owned by Unilever, a multinational consumer products company.

However, while Ben & Jerry's struggled, a Vancouver-based mining company, BHP Billiton Diamonds (www.bhpbilliton.com), has prospered while going the extra mile for its employees who are located at its remote Ekati Diamond mine in the Northwest Territories.⁷¹ The firm hires locally, offers residences to its workers who live elsewhere in the North, sources its supplies as much as possible locally, has developed a well-received adult education program for its workers, and offers its employees a diamond purchase plan. While at work, employees benefit from a free 24-hour dining room as well as sporting facilities and private rooms. Edmonton-based power utility Epcor is another example of a profitable company giving back to its community.⁷² In instances where an employee volunteers 50 hours or more per year, the company contributes \$150 to that charity or community group.

In the end, if company management chooses a proactive or accommodative strategy toward social responsibility (rather than a defensive or reactive strategy), it should do so because it wants to benefit society and its corporate stakeholders, not because it expects a better financial return.

Review 8

Social Responsibility and Economic Performance

Does it pay to be socially responsible? Sometimes it costs and sometimes it pays. Overall, there is no clear relationship between social responsibility and economic performance. Consequently, managers should not expect an economic return from socially responsible corporate activities. If your company chooses to practise a proactive or accommodative social responsibility strategy, it should do so to better society and not to improve its financial performance.

What Really Happened?

Contrary to popular belief, a clear choice between right and wrong rarely reveals itself to managers charged with “doing the right thing.” The business world is much messier than that. Plus, in practice, solutions to ethics and social responsibility problems aren’t optimal. Often, they are “make do” or “do the least harm” kinds of solutions. Let’s find out what really happened at McDonald’s as it struggled with the real-world tradeoffs between PETA’s demands that its egg suppliers treat animals humanely and the business demands associated with supplying those eggs.

What is the ethical thing to do in this situation?

Ethical behaviour follows accepted standards of right and wrong. However, it’s difficult to judge what’s ethical in this instance, because at this point there are no accepted ethical standards when it comes to the egg industry. Industry standards are different in the United States, Canada, and Europe. For example, caging hens is illegal in the United Kingdom and several European countries but is accepted practice in the United States and in Canada. And while PETA maintains that being kept in small cages mistreats egg-laying hens, the egg industry believes that using small cages is economical, prevents the spread of disease, maintains sanitation, and, when combined with an automatic feeding system, provides the ability to deliver a balanced diet of proteins, fats, carbohydrates, vitamins, and minerals.

Should McDonald’s give in to PETA’s demands or should it ignore them? Given that protests are not a new thing for McDonald’s, how does it decide how serious an issue this is and the lengths to which it should go to address these issues, if any?

How serious are PETA’s demands and how seriously should McDonald’s take them? Ethical intensity is how concerned or how serious people are about an ethical issue. When addressing issues

of high ethical intensity, managers are more aware of the impact their decisions have on others. They are more likely to view the decision as an ethical or moral decision rather than an economic decision. They are also more likely to worry about doing the “right thing.” Ethical intensity is strong when decisions have large, certain, immediate consequences, and when we are physically or psychologically close to those affected by the decision.

In the last few years, McDonald’s has enlisted the help of a team of university and professional experts to form the McDonald’s Animal Advisory Council. The council’s role is to provide McDonald’s with information, advice, and expertise and to make recommendations to McDonald’s and its suppliers regarding animal welfare problems and progress. Because of its work with this council, McDonald’s upper management viewed the treatment of hens as an “ethically intense” issue rather than an economic decision.

Furthermore, McDonald’s developed a set of Animal Welfare Guiding Principles for itself and its suppliers to follow. Those principles were to provide customers with safe food (safety); to treat animals with care and respect (quality assurance); to make sure that animals are free from cruelty, abuse, and neglect (animal treatment); to work with suppliers to monitor and improve animal welfare practices (partnership); to lead the industry by working with scientific experts and suppliers to improve animal welfare practice (leadership); to measure how its corporate purchasing leads to improved animal welfare (performance measurement); and to communicate its animal welfare programs, plans, and progress (communication).

So what did McDonald’s decide? Because of its animal welfare council and guidelines, McDonald’s decided that it would no longer purchase eggs from suppliers that debeaked chickens, kept them in overly small cages, and withheld food to increase molting and thus egg production. Bob Langert, who

heads up animal welfare and environmental programs for McDonald’s, said, “We think we’re moving the needle on an important issue. When it comes to social responsibility, McDonald’s plans to be a leader.”

If McDonald’s seriously considers PETA’s demands, how does it decide whose interests take precedence?

There are two views on this issue. The shareholder model says that McDonald’s should only concern itself with what its shareholders think of animal welfare programs. And if McDonald’s can convince its shareholders that the costs are low and the benefits are high, then the shareholders would probably approve, because it will help the company be more profitable. By contrast, the stakeholder model says that companies must satisfy the needs and interests of multiple corporate stakeholders. The problem for McDonald’s is that as the world’s largest restaurant, it has to try to balance the needs of many different stakeholder groups.

So if McDonald’s is supposed to satisfy the needs of multiple stakeholders, and the stakeholders disagree, how does it decide whose wishes take precedence? The stakeholder model argues that the needs of primary stakeholders (customers, employees, suppliers, shareholders, etc.) on which the organization relies for its existence take precedence over those of secondary stakeholders (the press, advocacy groups). But what if primary stakeholders disagree?

In this case, McDonald’s was lucky enough to be reconsidering its views on animal welfare and treatment at exactly the same time that the egg producer’s industry association was addressing the same issues. Committee chair and professor Jeff Armstrong said, “When McDonald’s went looking for a way to address their concerns about laying operations, they were excited to find we had what they needed.” The key, according to Bob Krouse, a member of that committee was that “egg producers knew they needed to have a production

based on science, not just experience or common practices.” Armstrong said, “The guidelines are based on the best available science. That means we validated certain practices and counselled against others based on objective studies and not just emotion or status quo.” The guidelines, which are near completion, increased cage sizes from 432 to 529 square centimetres, more than the 465 square centimetres recommended by McDonald’s. However, contrary to McDonald’s, the guidelines permit forced molting under specific conditions, something that McDonald’s does not permit.

Is it more socially responsible to require its egg suppliers to change their practices if changing them leads to financial losses and puts some of them out of business? Which comes first, the chickens or the egg producers?

Social responsibility is a business’s obligation to pursue policies, make decisions, and take actions that benefit society. Unfortunately, there is little agreement on what does or does not benefit society. Being profitable, or meeting one’s economic responsibility, is a business’s most basic social responsibility. However, companies also have

legal (comply with the law), ethical (do the right thing), and discretionary (do more than what’s expected) responsibilities to fulfil.

Again, this means that corporate efforts to behave in a socially responsible manner often require tradeoffs. In this instance, McDonald’s felt that the negative fallout to its business from not pushing animal welfare practices would be greater than the increased costs of requiring its suppliers to decrease the number of hens per cage. In short, somebody has to pay for corporate responsibility. Armstrong said, “Producers’ margins are slim. Ultimately, farmers can incorporate practices that are more animal friendly—but somebody needs to pay for them.” The key question for egg producers is will McDonald’s back up its commitment to animal welfare practices by paying them an additional 20 to 30 cents Cdn per dozen to cover the increased costs of following its animal welfare practices (larger cages, no forced molting, and no debeaking)? Tom Miner, a food consultant, believes that McDonald’s will cover those costs. He said, “They have the best kind of relationship with the farmers and it’s a major advantage in the market. Setting

a good example in North America will help McDonald’s establish sound supply chains with farmers in new markets abroad.” McDonald’s spokesperson Walt Riker said, “We are doing this because we feel the social responsibility to enhance animal welfare. As to the costs, we don’t have the details yet and will work on this with our suppliers.”

Sources: “Eggs Over Easy Thanks to Egg Producers,” Ag Answers. [Online] Available www.agriculture.purdue.edu/aganswers/2000/8-29%20_Eggs_Over_Easy.html, 29 June 2001. “Egg Production Information,” American Egg Board. [Online] Available, www.aeb.org/eii/production.html, 29 June 2001. “McDonald’s Animal Welfare Council,” McDonald’s. [Online] Available, www.mcdonalds.com/countries/usa/community/welfare/index.html, 29 June 2001. “McDonald’s Animal Welfare Guiding Principles,” McDonald’s. [Online] Available www.mcdonalds.com/corporate/social/animalwelfare/index.html, 29 June 2001. D. Campbell, “Chicken Run: McDonald’s Takes a Cue from the Hit Film and Demands Better Conditions for Hens Used to Supply Eggs for Its McMuffins,” *The Guardian*, 8 September 2000. T. Perry, “Egg Producers Are McMiffed Industry Balks at McDonald’s Tough Rules on Hen Treatment,” *Los Angeles Times*, 7 September 2000, C1. D. Wetzel, “McDonalds to Require Its Egg Suppliers to Improve Conditions for Hens,” *Chicago Tribune*, 24 August 2001.

Key Terms

- accommodative strategy (82)
- concentration of effect (68)
- conventional level of moral development (69)
- defensive strategy (81)
- discretionary responsibilities (80)
- economic responsibility (80)
- ethical behaviour (62)
- ethical intensity (68)
- ethical responsibility (80)
- ethics (62)
- legal responsibility (80)
- magnitude of consequences (68)
- overt integrity test (71)
- personal aggression (66)
- personality-based integrity test (71)
- political deviance (66)
- post conventional level of moral development (69)
- preconventional level of moral development (69)
- primary stakeholder (78)
- principle of distributive justice (70)
- principle of government requirements (70)
- principle of individual rights (70)
- principle of long-term self-interest (70)
- principle of personal virtue (70)
- principle of religious injunctions (70)
- principle of utilitarian benefits (70)
- proactive strategy (82)
- probability of effect (68)
- production deviance (65)
- property deviance (65)
- proximity of effect (68)
- reactive strategy (81)
- secondary stakeholder (78)
- shareholder model (76)
- shrinkage (66)
- social consensus (68)
- social responsibility (76)
- social responsiveness (81)
- stakeholder model (77)
- stakeholders (77)
- temporal immediacy (68)
- whistle blowing (75)
- workplace deviance (65)

What Would You Do II?

November 2002 was a special month for Dr. Nancy Olivieri. After six long years of struggle, Olivieri won a settlement from the University of Toronto and Hospital for Sick Children ending a highly public battle that began with her involvement in clinical drug trials of a major pharmaceutical company. Little did she know in 1996 that her name would soon be on everyone's lips in Canadian medical and academic circles and published frequently in national newspapers such as the *Globe and Mail* and the *National Post*. Her struggles would be documented in the *New England Journal of Medicine* and would serve as a basis for a re-examination of many medical institutions' relationships with private-sector stakeholders.

Olivieri is a clinical haematologist. In 1996 she was studying thalassemia and sickle cell disease, inherited blood diseases that are also two of the world's most common single gene disorders that affect one in seven people around the world. The Online Bulletin of the Canadian Association of University Teachers described the case as follows. In 1995,

Dr. Olivieri made what she describes as a "very big mistake" in her effort to arrange funding for her study of a promising new drug. She signed a confidential agreement with Apotex, Inc., a Canadian pharmaceutical company. In return for partly financing a study of the drug, deferiprone, Apotex received rights to potential sales from the drug, and Dr. Olivieri agreed that data from the study would be the company's property. Corporate interests and research ethics began to clash when Dr. Olivieri's study suggested the drug may be harmful.

Dr. Olivieri's interest in deferiprone was the potential it offered in the treatment of...thalassemia. The only available treatment requires patients to receive monthly transfusions of red blood cells. But this treatment causes life-threatening complications. The iron-rich red blood cells accumulate in the body, damaging the heart and liver.

To get rid of the iron, patients are hooked up to a pump that slowly injects the drug deferoxamine for a 12-hour period every day for the rest of their lives. The new drug, deferiprone, would be administered in pill form—eliminating the often unbearable standard treatment. With the work financed by the Medical Research Council of Canada, Dr. Olivieri and her team had some of the compound produced and tested it on 21 of her patients. Over the next three years test results showed a steady decline in iron levels in her study group. The revolutionary findings were published in the *New England Journal of Medicine* in April of 1995.

But, as with any new findings in drug research, a lot more work was needed to prove that deferiprone was safe and effective with long-term use. The researchers started planning a much larger study with Apotex, in conjunction with the Medical Research Council of Canada and the U.S. National Institutes of Health. It was at this stage Dr. Olivieri signed the ill-fated agreement with the Apotex firm.

In the fall of 1995, liver biopsies in some of the Toronto patients showed dangerous levels of iron overload throwing the researchers into a panic. Toxic levels can compromise liver function and lead to scarring and life-threatening cirrhosis.

Dr. Olivieri immediately stopped giving the drug to those patients most at risk but, at the time, was convinced the study should continue in those in whom the drug appeared useful. The researchers thought the drug treatment could be appropriate for some of the patients. The only way to find out for sure was to keep the study on track and carefully monitor the patients.

When Dr. Olivieri approached Apotex with her negative findings and a request to change the patient consent form to include the contraindications, the company disagreed that the patients were at risk. Apotex opposed changing the consent form.

But when Dr. Olivieri went ahead anyway, drafted a new consent form, and forwarded it to Apotex in May, 1996, the company's response was to fire her as principal investigator of the Toronto studies and as chair of the international study's steering committee. The study at the Hospital for Sick Children was halted, and Apotex confiscated the drugs from the hospital's pharmacy.

Dr. Olivieri was also repeatedly threatened with legal action if she divulged the findings to her patients. She spoke out anyway, believing that the health care of her patients was paramount. Dr. Olivieri also believed she would be supported by the Hospital. But her request for legal assistance from the institution was denied on the grounds that she had not obtained the administration's approval for her deal with Apotex.

[When] the controversy became public in 1998, the hospital removed Dr. Olivieri as the director of one of its programs, publicly questioned her conduct and ordered that she and four researchers who defended her to not speak publicly about what had happened.

As noted earlier, the Olivieri case was kept alive for four more years. Its coverage placed ethics in the media spotlight at a time when many individuals were more interested in the stratospheric rise of share prices than the conduct of organizations and their employees. Most importantly, the case caused many people to stop and think about responses to a number of questions. **What issues did the case raise? How might the problem have been avoided? What were the implications of the "Olivieri affair"?**

Sources: Allison Lawlor, "Sick Kids' Olivieri Wins Settlement," *The Globe and Mail*, 12 November 2002. [Online] Available www.globeandmail.com. "CAUT Brokers Settlement in Olivieri Case," CAUT Bulletin Online, February 1999. [Online] Available www.caut.ca. "Research Ethics vs Corporate Interests: Investigator's Disclosure Fuels Ethics Debate," CAUT Bulletin Online 45, no. 7 (September 1998). With Permission of CAUT (Canadian Association of University Teachers).

Critical Thinking Video Case

E-Mail Alert

E-mail is great for cutting costs, easing the flow of communications between customers and clients, and transferring knowledge within companies, right? Perhaps yes, but unfortunately, its use by employees also poses a major risk for many companies these days. The reason is that sometimes employees say things in e-mail that really should not be said. Unfortunately, once typed in, e-mail content is often very difficult to erase and usually does not disappear simply by deleting it.

In this video, you will learn that the use of e-mail by company employees is now considered an important risk to be managed by many companies. It is also big business for accounting firms such as KPMG Forensics and law firms such as McMillan Binch. It has also spawned a new form of operation that processes electronic evidence. One example is Minnesota-based Kroll Ontrack, a company that specializes in finding e-mail indiscretions. As you watch the video, consider the following critical thinking question.

Critical Thinking Question

Assume the role of Chief Information Officer for a mid-sized company. You are concerned that most of your employees from time to time may be using the company's e-mail system for personal correspondence. You are concerned about what the system is being used for, how often it is being used for these purposes, and by whom it is being used. You are contemplating hiring an electronic evidence processing company such as Kroll Ontrack to look into this issue. Before doing so, however, you feel it necessary to reflect on the ethics of a typical employee's use of the company e-mail system for personal use. How might the principles of ethical decision-making noted in this chapter apply in this instance?

Management Decisions

To Lie or to Tell the Truth?

Ethical dilemmas in the workplace occur often. Some are completely obvious, while others are subtle. Suppose you are the purchasing agent for a large corporation. A supplier has approached you regarding a recently submitted bid and has stated that if you choose his company as the winning bidder, he will provide you and your spouse with round-trip airfare tickets to Hawaii. His company's bid is 25 percent higher than the lowest bid. Accepting his offer would clearly be an unethical response, since it provides you, the purchasing agent, with a gain (airline tickets for you and your spouse) and costs your company money by accepting the proposal from the supplier with the highest price. Additionally, since your company has a policy forbidding cash, gifts, and other entitlements from suppliers and vendors, you would most likely lose your job if anyone found out. Therefore, the only ethical choice is to refuse the supplier's offer and award the contract to the vendor with the best product and the best price.

Now look at a scenario that has less obvious challenges. Assume that you have recently been hired as an entry-level manager for a small marketing agency and your supervisor, Ms. Johnson, tells you that she is running behind on an advertising proposal for a client. Ms. Johnson states that the client

will be dropping in this afternoon to discuss the proposal. She has asked that you intercept the client and tell him that she was called out of town for an emergency business meeting and to inform him that she will contact him when she returns from her trip. Delaying the client will buy Ms. Johnson the necessary time to finalize the client's proposal and allow her to appear more professional when she presents the proposal to him. In this dilemma, the gain is more time for Ms. Johnson to complete her assignment and the cost is that the client is delayed and deceived. There appears to be no personal gain for you.

Questions

1. Describe what you would do in the preceding scenario: accept the order from Ms. Johnson or refuse to cover for her.
2. Suppose a colleague tells you that your predecessor was fired for refusing to accommodate Ms. Johnson and her continual demands for unethical behaviour and unethical responses. Would that change your decision in question 1? Why or why not?
3. If you had to choose a principle of ethical decision-making to support your decision to this scenario, which principle would you choose and why?

Management Decisions

Speeding Tickets or a Poor Credit Record?

Who is the poorer risk for an insurance company: someone who has been caught speeding numerous times or someone who has a bad credit record? Logically, it should be the speeder, because everyone knows that “speed kills,” that speeders are in more accidents themselves, and that speeders cause other drivers to have accidents. In fact, government studies confirm that speed is one of the major causes of fatal car accidents. Everyone knows this to be true!

Surprisingly, however, the speeder is less likely to file benefit claims with an insurance company than someone with a poor credit record. Why? It is not exactly clear. However, insurance executives suspect that people who are good with their money are reliable and conscientious about driving (except for speeding). On the other hand, they speculate that people with poor credit records may be more likely to file false claims.

Regardless of the reasons, auto insurers have found that adding a request for credit information to a standard auto insurance application helps them do a better job of screening good insurance risks, that is, identifying people who will pay their premiums each month and those who will file claims for insurance benefits. “The data is absolutely overwhelming,” says one insurance industry executive. “There is a very strong correlation between serious financial instability and future loss.”

Critics charge that insurers who use credit records when deciding whether to offer insurance coverage are simply discriminating against the poor and minorities. Studies show that credit problems are inversely related to one’s level of income. Others simply doubt that credit records are accurate predictors of insurance risk.

Questions

1. Is it unethical or socially irresponsible for auto insurers to use credit records to screen applicants for auto insurance? Explain.
2. There is often disagreement about what companies should be socially responsible for. Explain what an insurance company’s economic, legal, ethical, and discretionary responsibilities should be.

Sources: J. Barks, “Credit Reports Aid Underwriters, But Is It Worth the Controversy?”, *Bests Review/Property-Casualty Insurance* 96 (1 August 1995): 44. K. Hoke, “Big Insurers Divide on Linking Auto Premiums to Credit History,” *Business First-Columbus*, 8 January 1996. G. Sanders, “Arizona Probing Insurers on Redlining, Credit Checks,” *Best Review / Property-Casualty Insurance* 95 (1 January 1995): 12. L. Scism, “Turned Down: A Bad Credit Record Can Get You Rejected for Auto Insurance,” *The Wall Street Journal*, 11 November 1995.

Develop Your Management Potential

“It is only the farmer who faithfully plants seeds in the Spring, who reaps a harvest in the Autumn.”

B.C. Forbes, Founder of *Forbes* Magazine

The purpose of these assignments is to develop your present and future capabilities as a manager. Since stakeholders increasingly expect companies to do more to fulfil their discretionary responsibilities, chances are you and your company will be expected to support your community in some significant way. To begin learning about community needs and corporate social responsibility, visit a local charity or nonprofit organization of your choosing, perhaps a hospital, the Red Cross, a soup kitchen, or a homeless shelter. Talk to the people who work or volunteer there. Gather the information you need to answer the following questions.

Questions

1. What is the organization’s mission?
2. Whom does the organization serve and how does it serve them?
3. What percentage of the organization’s donations is used for administrative purposes? What percentage is used to directly benefit those served by the organization? What is the ratio of volunteers to paid workers?
4. What job or task does the “typical” volunteer perform for the organization? How much time per week does the typical volunteer give to the organization? For what jobs do they need more volunteers?
5. How does the business community support the organization?
6. Why are you interested in the activities of this organization?

Discussion Questions

1. Canadian Tire is one of the most Canadian and best-known retailers—for example, everyone knows immediately what is meant by “Canadian Tire money.” As with all large organizations, managers may from time to time be faced with dealing with worker behaviour that fits under the heading of “workplace deviance.” Think of a typical Canadian Tire store. What four categories of deviant behaviour might a typical manager need to be wary of as he or she leads the day-to-day operations? In this instance, what does deviant behaviour refer to?
2. Times are tough for CEOs. Recent evidence suggests that boards of directors are far less tolerant of wayward managers. Higher turnover rates means that more new faces are being found in the executive suite. For a newly hired CEO, what four steps might he or she take to encourage more ethical decision-making?
3. Picture yourself being offered a high-profile challenge. You have been asked to take over the reins of Worldcom (now known as MCI), reinvent the top management team, and create a work environment that will be the envy of the industry. What are the four most important factors that you should consider as you attempt to create an ethical business climate?
4. Food banks are a necessary but unfortunate part of many towns and cities. Newly graduated from the University of Alberta’s undergraduate Business program, you have taken on the responsibility of managing one of Edmonton’s food banks. Among your most important responsibilities is to ensure that your organization can respond to the needs of the unfortunate on a day-to-day basis. Unfortunately, as the administrator you also have to manage other issues. Recently, you have been feeling overwhelmed by the different tasks and have decided to start ranking issues. Before doing this, however, you recognize that the needs and requests of some stakeholders may be more important than others. If you were to categorize the various stakeholders, which would be considered primary and which would be categorized as secondary? In this instance, what would be the difference between a primary stakeholder and a secondary stakeholder?
5. As manager of the food bank, you are also given the task of ensuring that the organization behaves in a socially responsible manner. Which four areas of corporate social responsibility would be most relevant to the food bank’s stakeholders? Briefly describe each.

Study Tip

Think back over the last year. In your own life can you recall any instances when you were forced to make an ethical decision? Reflecting on the decision, are there any principles of ethical

decision-making that might apply to the case in question? Try to summarize your ideas in one paragraph.