

OBJECTIVE 2.1

Define ethics, corporate social responsibility, and corporate sustainability.

ethics

Discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation.

corporate social responsibility (CSR)

Implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves.

corporate sustainability

Concerns with possible future impact of an organization on society, including social welfare, the economy, and the environment.

OBJECTIVE 2.2

Explore the concept of business ethics.

Defining Ethics, Corporate Social Responsibility, and Corporate Sustainability

Ethics is the discipline dealing with what is good and bad, right and wrong, or with moral duty and obligation. Ethics at times may appear to be complicated because businesses are created to produce a short-term profit, which could potentially conflict with ethical behavior.¹ Today most executives have a different view in that integrity and ethical values have an important place in business and should form the foundation of a company's culture.² Unfortunately, some companies and individuals still behave unethically, perhaps, because ethics moves to the back burner while executives focus on what they believe to be more important concerns.

Related to ethics are the concepts of corporate social responsibility and corporate sustainability. **Corporate social responsibility (CSR)** is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves, and **corporate sustainability** focuses on the possible future impact of an organization on society, including social welfare, the economy, and the environment. CSR and corporate sustainability differ from ethics in an important way. Ethics focus on individual decision making and behavior and the impact of ethical choices on employee welfare. As noted, CSR and corporate sustainability consider the broader impact of corporate activities on society.

Ethics, CSR, and corporate sustainability are everyone's business. Human resource (HR) professionals particularly concern themselves with establishing policies to promote ethical behavior and unethical behavior. In addition, the human resource management (HRM) function's leadership works with other executive leadership to identify training opportunities for educating employees about how they may make positive contributions to these objectives and developing performance-based pay programs that align employee performance with CSR and social responsibility goals. In this chapter, we will explore these three important topics.

Business Ethics

The past corrupt conduct of corporations such as WorldCom and Enron and the senior managers who led them provides deplorable examples of just how unethical company leadership can be. We also forgot to guard against the type of ethical abuses that ultimately bankrupted companies such as Bear Stearns and Lehman Brothers. Unfortunately, unethical behavior manifests in other ways. For example, the U.S. Justice Department expects that Credit Suisse Group AG is likely to plead guilty to a crime in which they assisted wealthy Americans evade taxes.³





HR Web Wisdom

International Business Ethics
Institute

<http://www.business-ethics.org>

The Institute was founded in 1994
in response to the growing need
for transnational organizations in
the field of business ethics.

CEOs have to be clear that unethical behavior is not acceptable. In one survey, 67 percent of investors said they would move their account if they discovered the company was involved in unethical behavior.⁴ Jeff Immelt, General Electric's (GE) CEO, begins and ends each annual meeting of 220 officers and 600 senior managers by restating the company's fundamental integrity principles: "GE's business success is built on our reputation with all stakeholders for lawful and ethical behavior."⁵ At GE, when it comes to integrity violations, it is one strike and you are out. There are no second chances.⁶ The focus should be on just doing the right thing. The image of the business world would be in much better shape if this simple advice were followed. Hopefully, ethical standards are improving.

Most of the 500 largest corporations in the United States now have a code of ethics, which encompasses written conduct standards, internal education, and formal agreements on industry standards, ethics offices, social accounting, and social projects. Even so, business ethics scandals continue to be headline news. Lying on résumés, obstruction of justice, destruction of records, stock price manipulation, cutting corners to meet Wall Street's expectations, fraud, waste, and abuse are unfortunately occurring all too often when those in business decide to make poor ethical choices. Then, there are the corporate executives that took home millions even though their company failed and employees were laid off. They evidently realized that they could make a quick profit through their unethical behavior.⁷

However, business is not alone. There is virtually no occupation that has not had its own painful ethical crises in recent years. There were the teachers who provided answers on standardized tests to improve their schools' performance scores. Doctors who make money by falsely billing Medicare do not even make the headlines anymore. But certainly a devastating blow to society has been dealt by business, and ethical breaches in business continue today.

Compliance with the law sets the minimum standard for ethical behavior; ethics, however, is much more. There must be leaders who are able and willing to instill ethics throughout the culture of the organization. Ethics is about deciding whether an action is good or bad and what to do about it if it is bad. Ethics is a philosophical discipline that describes and directs moral conduct. Those in management make ethical (or unethical) decisions every day. Do you hire the best-qualified person, who is a minority? Do you forget to tell a candidate about the dangerous aspect of a certain job? Some ethical decisions are major and some are minor. But decisions in small matters often set a pattern for the more important decisions a manager makes. Attitudes such as "It's standard practice," "It's not a big deal," "It's not my responsibility," and "I want to be loyal" are simply not acceptable.⁸ The Roman philosopher Cicero echoed this when he said, "It is a true saying that one falsehood leads easily to another."⁹ In the sixteenth century, Sir Thomas More said, "If virtue were profitable, common sense would make us good and greed would make us saintly."¹⁰ More knew that virtue is not profitable, so people must make hard choices from time to time.

OBJECTIVE 2.3

Describe sources of ethical guidance.

Sources of Ethical Guidance

The sources of ethical guidance should lead to our beliefs or a conviction about what is right or wrong. Most would agree that people have a responsibility to avail themselves to these sources of ethical guidance. In short, individuals should care about what is right and wrong and not just be concerned with what is expedient. One might use a number of sources to determine what is right or wrong, good or bad, and moral or immoral. These sources include the Bible and other holy books. They also include the small voice that many refer to as conscience. Many believe that conscience is a gift of God or the voice of God. Others see it as a developed response based on the internalization of societal mores. Another source of ethical guidance is the behavior and advice of the people psychologists call "significant others"—our parents, friends, and role models and members of our churches, clubs, and associations.

Laws also offer guidance to ethical behavior, prohibiting acts that can be especially harmful to others. They codify what society has deemed to be unacceptable.¹¹ If a certain behavior is illegal, most would consider it to be unethical as well. There are exceptions, of course. For example, through the 1950s, laws in most southern states relegated blacks to the backs of buses and otherwise assigned them inferior status. Martin Luther King Jr. resisted such laws and, in fact, engaged in civil disobedience and other nonviolent forms of resistance to their enforcement. King won the Nobel Peace Prize for his efforts.



ETHICAL DILEMMA

A Selection Quandary

You are being promoted to a new assignment within your company, and your boss has asked you to nominate one of your subordinates as your replacement. The possible candidates are Randy Carlton, who is obviously more qualified, and James Mitchell, who, though not as experienced, is much better liked by the workers. If Randy is given the promotion, you are not certain the workers will accept him as their leader. James, on the other hand, is a hard worker and is well liked and respected by the others, including Randy. As you labor over the decision, you think about how unfair it would be to Randy if the feelings of the other workers kept him from getting a deserved promotion. At the same time, you feel that your primary responsibility should be to maintain the productivity of the work unit. If your former division fell apart after your departure, it would hurt your reputation, not to mention the company.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

This is the only place in this text where we will recommend the ethical choice and also identify other factors that might make a person take a less-than-ethical stand. What would you have done if placed in a situation such as this?

Ethical Choice: Recommend Randy, who is the best-qualified employee.

Factors Influencing Another Decision: The department might fall apart if Randy is given the promotion. Other workers might not work for Randy and the workers would more readily accept James. Your reputation may be hurt if the department productivity declines. Besides, Randy can work with James.

The sources of ethical guidance should lead to our beliefs or a conviction about what is right or wrong. Most would agree that people have a responsibility to avail themselves of these sources of ethical guidance. In short, individuals should care about what is right and wrong and not just be concerned with what is expedient. Two conditions must exist if an individual or organization is to be considered ethical. First, ethics consists of the strength of the relationship between what an individual or an organization believes to be moral and correct and what available sources of guidance suggest is morally correct. For example, suppose a manager believes it is acceptable not to hire minorities, despite the fact that almost everyone condemns this practice. This person would not be considered ethical. Having strong beliefs about what is right and wrong and basing them on the proper sources may have little relationship to what one does.

Second, ethics consists of the strength of the relationship between what one believes and how one behaves. For example, if a manager knows that it is wrong to discriminate but does so anyway, the manager is also unethical. If a board of directors considers it wrong to pay excessively high salaries relative to the CEO's job performance, yet pays salaries that are excessive in this context, this behavior is also unethical. Generally, a person is not considered ethical unless the person satisfies both conditions.

For most professionals, there are codes of ethics that prescribe certain behavior. Without this conscience that has developed, it might be easy to say, "Everyone does it," "Just this once won't hurt," or "No one will ever know." Some still believe that greed is acceptable as long as the Equal Employment Opportunity Commission (EEOC) does not find out.¹² Fortunately, the HRM profession subscribes to a code of ethics, which we discuss later in this chapter.

OBJECTIVE 2.4

Discuss attempts at legislating ethics.

Legislating Ethics

In 1907, Teddy Roosevelt said, "Men can never escape being governed. If from lawlessness or fickleness, from folly or self-indulgence, they refuse to govern themselves, then in the end they will be governed [by others]."¹³ Many contend that ethics cannot be legislated. Although laws cannot mandate ethics, they may be able to identify the baseline separating what is good and what is bad. Much of the current legislation was passed because of business ethics breakdowns. There have been at least four attempts to legislate business ethics since the late 1980s.

Procurement Integrity Act

The Procurement Integrity Act of 1988 prohibits the release by government employees of source selection and contractor (for the purposes of this act, a business that enters into contracts with government to provide goods or services) bid or proposal information. Examples of information contained in bids include employee pay rates and proprietary information about the contractor's business processes. Further, this act applies this restriction to nongovernment employees who provided consulting services on procurement matters. Finally, a former government employee who served in certain positions on a procurement action or contract in excess of \$10 million is barred from receiving compensation as an employee or consultant from that contractor for one year. The act was passed after there were reports of military contracts for \$500 toilet seats. There was also a \$5,000 hammer.

Federal Sentencing Guidelines for Organizations Act

The second attempt occurred with the passage of the 1992 Federal Sentencing Guidelines for Organizations (FSGO) Act, which outlined an effective ethics training program and explained the seven minimum requirements for an effective program to prevent and detect violations.¹⁴ The FSGO promised softer punishments for wayward corporations that already had ethics programs in place. In the law were recommendations regarding standards, ethics training, and a system to anonymously report unacceptable conduct. Executives were supposed to be responsible for the misconduct of those lower in the organization. If executives were proactive in their efforts to prevent white-collar crime, it would lessen a judgment against them and reduce the liability. Organizations responded by creating ethics officer positions, installing ethics hotlines, and developing codes of ethics. But it is one thing to have a code of ethics and quite another to have this code instilled in all employees from top to bottom.

Corporate and Auditing Accountability, Responsibility and Transparency Act

The third attempt at legislating business ethics was the Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002, which criminalized many corporate acts that were previously relegated to various regulatory structures. Known as the Sarbanes-Oxley Act, its primary focus is to redress accounting and financial reporting abuses in light of corporate scandals.¹⁵ The Sarbanes-Oxley Act was intended to eliminate or at least reduce conflicts of interest by requiring audit-committee-level preapproval for nonaudit services auditors at companies they audit and enforcing a code of ethics on senior client financial management.¹⁶ The act contains broad employee whistleblower protections that subject corporations and their managerial personnel to significant civil and criminal penalties for retaliating, harassing, or discriminating against employees who report suspected corporate wrongdoing. The whistleblower protections of the act apply to corporations listed on U.S. stock exchanges; companies otherwise obligated to file reports under the Securities and Exchange Act; and officers, employees, contractors, subcontractors, and agents of those companies.

The act states that management may not discharge, demote, suspend, threaten, harass, or in any other manner discriminate against an employee protected by the act. It protects any employee who lawfully provides information to governmental authorities concerning conduct he or she reasonably believes constitutes mail, wire, or securities fraud; violations of any rule or regulation issued by the Securities and Exchange Commission (SEC); or violations of any other federal law relating to fraud against shareholders. The act evidently has teeth because in the *Bechtel v. Competitive Technologies Inc.* (2003) Supreme Court case involving wrongful termination under Sarbanes-Oxley's whistleblower-protection rule, the Court ruled that the company violated the act by firing two employees and ordered them reinstated. They were fired because during a meeting they had raised concerns about the company's decision not to report, on its SEC filing, an act they thought should have been disclosed.¹⁷

The law prohibits loans to executives and directors. It requires publicly traded companies to disclose whether or not they have adopted a code of ethics for senior officers. The act does not require banks and bank-holding companies that report to the SEC to have a code of ethics, but if an SEC reporting company does not have one, it must explain why.¹⁸ However, as former SEC

Chairman Arthur Levitt said, “While the Sarbanes–Oxley Act has brought about significant change, the greatest change is being brought about not by regulation or legislation, but by humiliation and embarrassment and private rights of action.”¹⁹

Dodd–Frank Wall Street Reform and Consumer Protection Act

The fourth, the Dodd–Frank Wall Street Reform and Consumer Protection Act, was signed into law in 2010. The act was brought on by the worst financial crisis since the Great Depression, which resulted in the loss of 8 million jobs, failed businesses, a drop in housing prices, and wiped out personal savings of many workers. As the financial crisis advanced, it became clear that executive compensation played a major role in the financial services sector as well as in the capital markets following the collapse of investment services firms such as Lehman Brothers, Merrill Lynch, Bear Stearns, and AIG.²⁰

Whistleblower Protection

In the legal use of the term, a whistleblower is someone who participates in an activity that is protected. Corporate whistleblowing involves ethics, a topic of this chapter. It requires an individual to choose between personal ethics and the status quo. Often whistleblowers view themselves as the company’s conscience.²¹ The use of whistleblowers has been around since 1863 when President Abraham Lincoln signed into law the Federal False Claims Act, which was designed to protect the United States from purchases of fake gunpowder during the Civil War.²² The number of whistleblower suits has increased dramatically in recent years under federal and state laws aimed at uncovering fraud and protecting the public. In 2012, the Justice Department recovered \$3.3 billion in taxpayer funds thanks to whistleblowers, who originated hundreds of lawsuits and shared \$439 million of the proceeds.²³

The Dodd–Frank Wall Street Reform and Consumer Protection Act contains a whistleblower protection provision, which is shaped after the successful IRS program. In passing the act, Congress believed that award programs were a good method to get people to provide fraud information to responsible law enforcement officials. The act requires the Securities SEC to give an award to qualified whistleblowers of between 10 and 30 percent of the total amount obtained if the information is voluntarily provided and leads to a successful enforcement or related action. The act also improves whistleblowers’ retaliation protection from their employers through the expansion of the whistleblower protections of the Sarbanes–Oxley Act of 2002. Firms may not directly or indirectly discharge, demote, suspend, threaten, harass, or in any way discriminate against whistleblowers that provide information to the SEC as specified in the program.²⁴ This is important because in the past whistleblowers often were fired, demoted, blacklisted, or quit under duress. SEC Chair Mary L. Schapiro said, “While the SEC has a history of receiving a high volume of tips and complaints, the quality of the tips we have received has been better since Dodd–Frank became law, and we expect this trend to continue.”²⁵ The Whistleblower Office received 3,001 whistleblower tips, complaints, and referrals during fiscal year 2012.²⁶ The most common complaint categories reported by whistleblowers were corporate disclosures and financials (18.2 percent), fraud offerings (15.5 percent), and manipulation (15.2 percent).²⁷

Many believe that information provided by whistleblowers is much more effective in uncovering wrongdoings than are external auditors. In testimony to the Senate Banking Committee, Certified Fraud Examiner Harry Markopolos stated that “whistleblower tips detected 54.1 percent of uncovered fraud schemes in public companies. External auditors detected a mere 4.1 percent of fraud schemes.”²⁸

Companies have some uneasiness regarding the whistleblower provision of the Dodd–Frank Act.²⁹ A recent survey of senior legal, compliance, and HR executives at publicly traded or highly regulated companies found that 96 percent expressed either great concern or moderate concerns about potential whistleblower complaints.³⁰ The major concern is that the rules run counter to a firm’s internal compliance efforts.³¹ Companies are afraid that employees will not go through internal channels first and instead go directly to government authorities to collect the reward.³² Another fear is that an employee might have another grievance with the company and use the whistleblower provision to get back at the company.

OBJECTIVE 2.5

Explain the importance of creating an ethical culture and code of ethics.

Creating an Ethical Culture and a Code of Ethics

Mark Twain once said, “Always do right. This will gratify some people and astonish the rest.”³³ This is certainly good advice for both employees and employers if the firm wants to create an ethical culture. Saying that a company has an ethical culture and actually having one may be two different things. Culture is concerned with the way people think, which affects the way that they act. Changing an organization’s culture thus requires modifying the common way of thinking of its members.³⁴ Organizations with strong ethical cultures take steps to ensure that their standards are widely accessible, promoted, and followed by their leaders and employees.³⁵ For example, the Enron debacle was not supposed to happen. The Enron Code of Ethics was 62 pages long and had a foreword by Kenneth L. Lay, who was then the company’s chairman, saying “Enron’s reputation finally depends on its people, on you and me. Let’s keep that reputation high.”³⁶ Even with the ethical code, it is apparent that Enron’s top management pursued business as usual.

One way for a firm to create and sustain an ethical culture is to audit ethics, much like a company audits its finances each year.³⁷ An ethics audit is simply a systematic, independent, and documented process for obtaining evidence regarding the status of an organization’s ethical culture. It takes a closer look at a firm’s ethical culture instead of just allowing it to remain unexamined. An ethical culture is made up of factors such as ethical leadership, accountability, and values. The climate with top management is fundamental to a company’s ethical culture.³⁸ Ethical leadership begins with the board of directors and CEO and continues to middle managers, supervisors, and employees. Building an ethical culture that lasts requires a foundation of practices that continue even when leaders change.³⁹ The following Watch It video illustrates how employees and members of management are brought together to enact a change within the company. Their goal is to limit the negative environmental impacts of their company as much as possible by applying the best practices concept to their everyday activities.

Watch It I

If your instructor has assigned this, go to MyManagementLab to watch a video titled Patagonia: Ethics and Social Responsibility and to respond to questions.

According to the Corporate Executive Board in Arlington, Virginia, companies with weak ethical cultures experience 10 times more misconduct than companies with strong ethical cultures.⁴⁰ In strong ethical cultures, employees are at ease to speak up about their concerns without fear of retaliation. In workplaces with a strong ethical culture, only 4 percent of employees feel pressure to compromise standards and commit misconduct compared to 15 percent in a weaker culture.⁴¹

For organizations to grow and prosper, good people must be employed. Companies are also searching for new employees who have a sound ethical base because they have discovered that an ethical person tends to be more successful. Dov Seidman, a management guru who advocates corporate virtue to many companies, believes that companies that “outbehave” their competitors ethically will generally outperform them financially.⁴² Further, according to the National Association of Colleges and Employers, the ethical—or unethical—behavior of an organization is a critical factor for new college graduates seeking jobs.⁴³

By fostering a strong ethical culture, firms are better able to gain the confidence and loyalty of their employees and other stakeholders, which can result in reduced financial, legal, and reputation risks, as well as improvements in organizational performance. Organizations are redesigning their ethics programs to facilitate a broader and more consistent process that incorporates the analysis of outcomes and continual improvement. To build and sustain an ethical culture, organizations need a comprehensive framework that encompasses communication of behavior expectations, training on ethics and compliance issues, stakeholder input, resolution of reported matters, and analysis of the entire ethics program. To make it really work, involvement by top management is certainly necessary.

A distinction needs to be made between a code of conduct and a code of ethics; the former should tell employees what the rules of conduct are. The code of ethics helps employees know

what to do when there is not a rule for something.⁴⁴ Jim Ward, associate vice president of ethics and compliance at Georgetown University, summed it up by saying, “You can’t draft enough rules to cover everything.”⁴⁵ A broad-based participation of those subject to the code is important. For a company to behave ethically, it must live and breathe its code of ethics, train its personnel, and communicate its code through its vision statements. It cannot just print a manual that sits on a corporate shelf. The code is a statement of the values adopted by the company, its employees, and its directors and sets the official tone of top management regarding expected behavior. Many industry associations adopt such codes, which are then recommended to members. There are many kinds of ethical codes. An excellent example of a code of ethics was developed by the Society for Human Resource Management (SHRM). The six core provisions in the SHRM code of ethics are professional responsibility, professional development, ethical leadership, fairness and justice, conflicts of interest, and use of information.⁴⁶

Just what should be included in a code of ethics? Topics typically covered might be business conduct, fair competition, and workplace and HR issues. For example, employees in purchasing would be shown what constitutes a conflict of interest. The same would occur for sales. At Walmart, it is considered unethical to accept gifts from suppliers. Gifts are either destroyed or given to charity. Fidelity International recently fired two Hong Kong-based fund managers over breaches of its internal code of ethics. Fidelity said, “Our routine checks discovered a pattern of behavior that breached our internal policies.”⁴⁷

To keep the code on the front burner for employees, larger firms appoint an ethics officer. The ethics officer is the point person in guiding everyone in the company toward ethical actions. This individual should be a person who understands the work environment. To obtain the involvement of others within the organization, an ethics committee is often established.

There are reasons to encourage industry associations to develop and promote codes of ethics. It is difficult for a single firm to pioneer ethical practices if its competitors take advantage of unethical shortcuts. For example, U.S. companies must comply with the Foreign Corrupt Practices Act, which prohibits bribes of foreign government officials or business executives. Obviously, the law does not prevent foreign competitors from bribing government or business officials to get business, and such practices are common in many countries. This sometimes puts U.S. companies at a disadvantage.

Even the criteria for winning the Malcolm Baldrige National Quality Award have changed, and an increased emphasis on ethics in leadership is now stressed. The criteria say senior leaders should serve as role models for the rest of their organizations. Baldrige applicants are asked questions about how senior leaders create an environment that fosters legal and ethical behavior. They need to show how the leaders address governance matters such as fiscal accountability and independence in audits.

OBJECTIVE 2.6

Define human resource ethics.

human resource ethics

Application of ethical principles to human resource relationships and activities.

Human Resource Ethics

Human resource ethics is the application of ethical principles to HR relationships and activities. It is vitally important that HR professionals know the practices that are acceptable and unacceptable and work to ensure that organizational members also have this awareness in dealing with others.

Some believe that those in HR have a great deal to do with establishing an organization’s conscience. In fact, according to a SHRM report, integrity and ethical behavior rank in the top five competencies needed for senior HR leaders.⁴⁸ Certainly ethics is a quality the HR professionals should possess; it is the duty of HR professionals to help create an ethical climate in their organization.⁴⁹

HR professionals can help foster an ethical culture, but that means more than just hanging the ethics codes posters on walls. Instead, because the HR professionals’ primary job is dealing with people, they must help to instill ethical practices into the corporate culture. Those values must be clearly communicated to all employees, early and often, beginning with the interview process, reinforced during employee orientation, and regularly recognized during performance reviews, public ceremonies, celebrations, and awards. They need to help establish an environment in which employees throughout the organization work to reduce ethical lapses. The ethical bearing of those in HR goes a long way toward establishing the credibility of the entire organization.

There are many topics through which HR professionals can have a major impact on ethics, and therefore, on creating an ethical corporate culture. Some ethical questions that might be considered include:

- Do you strive to create a diverse workforce?
- Do you insist that job descriptions are developed to accurately depict jobs that are dangerous or hazardous?
- Do you strive to recruit and select the best-qualified applicant for the job?
- Are your training initiatives geared so that everyone will have an opportunity to receive the best training and development possible?
- Is your performance management and appraisal system able to identify those who are indeed the best producers and rewarded accordingly?
- Is your compensation and benefit system developed so that employees will view it as fair and impartial?
- Does your organization make a sincere attempt to provide a safe and healthy work environment?
- Does your organization attempt to develop a work environment in which employees will not feel compelled to join a union?
- Are you fair and impartial when dealing with disciplinary action, promotion, transfer, demotion, resignation, discharge, layoff, and retirement?
- Does your firm adhere to ethical norms when operating in the global environment?

HR should review, develop, and enforce organizational policies to ensure a high level of ethics throughout the organization. All employees should know what is ethical and unethical in their specific area of operations. It is insufficient to say that everyone should behave ethically.

OBJECTIVE 2.7

Discuss the importance of linking pay to ethical behavior.

Linking Pay to Ethical Behavior

The importance of linking pay to performance is an appropriate topic when discussing ethics. It is well known in the compensation world that “what you reward is what you get.” If the statement is correct, then a problem exists because most companies do not link pay to ethical behavior but base pay on entitlement and custom.⁵⁰ A survey of 358 compliance and ethics professionals by the Society of Corporate Compliance and Ethics (SCCE) and Health Care Compliance Association found that only a few companies have made ethics and compliance a process for determining how employees are compensated, and only about one company in six ties employee bonuses and incentives to ethical performance.⁵¹ In another survey, when asked how much impact the ethics and compliance function has on the compensation process for executives, just 34 percent of respondents said it had some or a great deal of impact. The majority indicated that compliance and ethics played very little (27 percent) or no role (29 percent), and the balance was unsure of the role of ethics and compliance.⁵² CEO Roy Snell of SCCE said, “The net result is that there is more work to be done in aligning business practices with stated commitment to compliant, ethical behavior.”⁵³ For example, ethical expectation could be made part of the performance review and the results tied to pay raises.⁵⁴ As one author recently stated, “When employees behave in undesirable ways, it’s a good idea to look at what you’re encouraging them to do.”⁵⁵

OBJECTIVE 2.8

Describe ethics training.

Ethics Training

The FSGO Act outlined an effective ethics training program and explained the seven minimum requirements for an effective program to prevent and detect violations. The fourth requirement stated, “Educate employees in the company’s standards and procedures through publications and training.” Companies train employees on many topics, but ethics training is often not considered, which is a major oversight. Because of its inclusion within the FSGO, a brief discussion of ethics training will be provided in this chapter.

Companies that consistently rank high on the lists of best corporate citizens tend to make ethics training part of a company-wide initiative to promote integrity.⁵⁶ Ethics training should be part of a proactive, not reactive, strategy. Regular training builds awareness of common ethical issues and provides tools for effective problem solving. Warren Buffett once said, “Pick out associates whose behavior is better than yours and you’ll drift in that direction.”⁵⁷ Ethics training should begin



HR BLOOPERS

Sales Incentives at Pincer Pharmaceuticals

Quarterly sales reports are in at Pincer Pharmaceuticals and Ben Ross looks forward to sharing the reports with the sales team. As a compensation analyst, Ben calculates sales commissions for the sales representatives, and high sales mean big paychecks for the team. The sales representatives receive incentive pay bonuses based on how many times doctors in their sales territory prescribe Pincer drugs. The number of prescriptions has increased with several of the popular drugs Pincer makes and the sales representatives that have the doctors writing the most prescriptions stand to benefit significantly. Ben knows that they have steep competition on some of their products, but he has also heard some rumors about how they stay ahead of competitors.

Apparently many of the sales representatives are using some of their own extra earnings to earn the favor of the doctors. Gifts, dinners, and other incentives are provided to the doctors to encourage them to write Pincer prescriptions. At first he thought there might be a problem with this practice, but Ben knows that Pincer has a Code of Ethics and provides ethics training to all employees, so the sales representatives must know that their practices are acceptable. Ben understands that this is just the way business is done, and Ben's job is just to make sure they get paid what they have earned.

★ If your professor has assigned this, go to mymanagementlab.com to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

at the top and continue through all levels in the organization.⁵⁸ However, training should take into consideration the differences in these levels. Although top management sets the ethical tone, middle managers are the ones who will likely be the first to receive reports of unethical behavior.

KPMG believes that there are three fundamental factors in handling ethics issues: provide multiple channels for raising alarms, eliminate fear of retaliation for those who raise questions, and ensure consistent investigation and resolution of all matters reported. Individuals who report potential ethics violations could be subject to retaliation, so KPMG monitors performance reviews and other metrics to proactively identify retaliatory behavior. The credibility of the program requires all reports to be consistently investigated and resolved.⁵⁹

Cisco created a unique ethics training program that showcased cartoon contestants singing about various ethical workplace situations found in Cisco's *Code of Business Conduct*. Jeremy Wilson, manager, ethics office for Cisco Systems, Inc., said, "We wanted what was right for our employees, based upon our own risk analysis." When Cisco created its program, it invited input from more than 120 people from departments across the organization, including legal, human resources, IT security, and records management.⁶⁰

Ethics training for global organizations is more complicated than preparing the training for U.S. employees. One must also train for the country in which the global company operates. Since 1994, LRN has helped 15 million people at 700 companies across the world simultaneously navigate legal and regulatory environments and foster ethical cultures.⁶¹ A few of their customers include CBS, Dow Chemical, eBay, 3M, and Siemens. Chris Campbell, creative director at LRN, says, "Localization is as important as the accuracy of the translation process. Learners need to be able to connect in a way that is believable to them."⁶²

OBJECTIVE 2.9

Describe the concept of corporate social responsibility.

Corporate Social Responsibility

As stated in the introduction, CSR is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves. A recent survey revealed that 86 percent of consumers wanted companies to tell them more about the results of CSR efforts.⁶³ Also, according to Net Impact's *What Workers Want in 2012* talent report, 35 percent of graduating college students said they would be willing to take a 15 percent pay cut to work for a company committed to CSR and 65 percent expect to make a positive social or environmental difference in the world at some point through their work.⁶⁴ What do the following U.S. companies have in common: Biogen Idec Inc., Intel Corp., Cisco Systems Inc., Agilent Technologies Inc., The Clorox Company, GE, Motorola Solutions Inc.,



HR Web Wisdom

Business for Social Responsibility

<http://www.bsr.org>

This is a global organization that helps member companies achieve success in ways that respect ethical values, people, communities, and the environment.

Prologis Inc., and the Campbell Soup Company? They have been identified as having a commitment to excellence in the area of CSR and are included in the 2014 Global 100 Most Sustainable Corporations in the World.⁶⁵ These companies have demonstrated the ability to manage the “triple bottom line” of social responsibility (society, environment, and economy).⁶⁶ They represent the top 5 percent of socially responsible companies.

CSR is the model in which economic, social, and environmental responsibilities are satisfied concurrently.⁶⁷ Figure 2-1 illustrates the layers of responsibility associated with CSR. When a corporation behaves as if it has a conscience, it is said to be socially responsible. CSR considers the overall influence of corporations on society at large and goes beyond the interests of shareholders. It is how a company as a whole behaves toward society. In many companies, social responsibility has moved from nice to do to must do.⁶⁸ More and more companies are issuing CSR reports that detail their environmental, labor, and corporate-giving practices. Some firms, such as Burger King, have created the position of director of CSR.

Apparently, socially responsible behavior pays off on the bottom line. When GE CEO Jeffrey Immelt announced that the company would double its spending on green technology research, it was no grand attempt to save the planet; it was an example of astute business strategy. Immelt said, “We plan to make money doing it.”⁶⁹ Social responsibility has also impacted the recruiting process. College graduates of today often seek out corporations that have a reputation for being socially responsible, which was not often the case in the past. In fact, job seekers tend to be more attracted to organizations known for CSR.⁷⁰

Procter & Gamble has long believed it has a responsibility for the long-term benefit of society as well as the company. Over the years, P&G has pursued programs to strengthen U.S. education, to encourage employment opportunities for minorities and women, to develop and implement environment-protection technology, and to encourage employee involvement in civic activities and the political process.

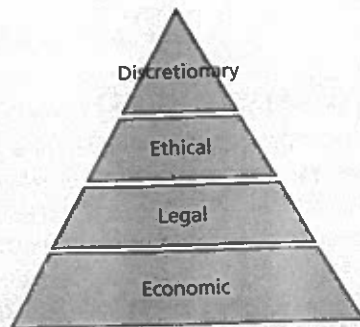
Deborah Leipziger, an Ethical Corporation Institute researcher, said, “The more credible efforts tend to be led by key players within a company.”⁷¹ An organization’s top executives usually determine a corporation’s approach to social responsibility. For example, when McDonald’s began, it was Ray Kroc’s philosophy to be a community-based business. His philosophy from the beginning was to give back to the communities that McDonald’s served.⁷²

One of the best benchmarks for defining social responsibility in manufacturing is the one-page set of operating principles developed 60 years ago by Robert Wood Johnson, then Johnson & Johnson’s chairman of the board. The document is still in use today and addresses supporting good works and charities.⁷³

During the Vietnam War, Dow Chemical gained a bad reputation for not being socially responsible because it produced the deadly chemical agent napalm. As a result Dow had difficulty recruiting the best scientists and other professionals. To overcome this image, Dow built a campaign that highlighted how Dow has benefitted agricultural production. Once people saw the positive side of Dow, its ability to recruit and retain the best chemists improved.⁷⁴ However, the chemical industry continues to face widespread public mistrust despite being an enabler of advances that are vital to solving global challenges as well as efforts to improve product and process safety.⁷⁵

FIGURE 2-1
Carroll’s Pyramid of Corporate Social Responsibility

Source: SHRM Foundation, “HRM’s Role in Corporate Social Responsibility and Environmental Sustainability,” 2012, Alexandria, VA: SHRM Foundation, page 4. Accessed February 3, 2014, at www.shrmfoundation.org.



- **Discretionary responsibilities:** The fourth layer of responsibility is to proactively seek opportunities to make a positive contribution to society beyond profitability, compliance and business ethics. At the discretionary, or voluntary, level, organizations have a responsibility to understand broad stakeholder needs and to address societal concerns through their business practices.
- **Ethical responsibilities:** The third layer of the pyramid requires organizations to consider social and environmental impacts of their operations and, as far as possible, to do no harm while pursuing business interests.
- **Legal responsibilities:** The second aspect of responsibility requires that organizations operate within the law at all locations in which they do business.
- **Economic responsibilities:** The first responsibility of any organization is to deliver an acceptable return for shareholders (while contributing to local and global economies through their core business).

Thus far only the virtues of CSR have been provided. However, the question of whether businesses should promote CSR is at times hotly debated and not all companies have embraced the concept.⁷⁶ Some have challenged the concept that doing well is doing good (DWDG). They believe that although appealing to some, DWDG is also profoundly wrong.⁷⁷ Milton Friedman was a U.S. economist, statistician, academic, and author who taught at the University of Chicago for more than three decades and was a recipient of the Nobel Memorial Prize in Economic Sciences. In his book *Capitalism and Freedom*, he argued that the only social responsibility of business was to increase its profits. According to Friedman, as a firm creates wealth for its shareholders, society as a whole will also be benefited.⁷⁸ Friedman disciples continue to condemn CSR as a hotchpotch of “value-destroying nonsense.”⁷⁹

These days, more employers are publicly endorsing a culture of ethics and social responsibility. However, some believe that it is being done more as a public relations campaign. Long before the enormous oil spill in 2010, BP promoted itself as being eco-friendly. Its literature stated that BP stood for “Beyond Petroleum.” BP marketed itself as a producer of alternative energies, an image that was seriously damaged by the devastating oil spill in the Gulf of Mexico in 2010.⁸⁰ Instead of spending billions on eco-friendly energy and building an employer brand campaign around it, many believe that BP would have been much better off if it had spent more time and effort in training its employees on its oil drilling platforms, establishing stronger safety protocols, and waiting until they were safe to operate. Even during this public relations campaign, BP had a history of safety violation. BP had been “fined more than \$100 million for safety violations that led to deaths of workers, explosions of refineries, and leaking pipelines.”⁸¹

Another example is about Duke Energy Corporation. One of its storm water pipes burst, jettisoning tons of coal ash into the Dan River north of Greensboro, North Carolina. This company’s CEO agreed to face environmentalists who are up in arms about this environmental threat. She agreed to embark on a canoe trip with environmentalists to the spill site to show a willingness to face the problem.⁸² But, some within the company have argued that members of its board of directors’ environmental committee are inexperienced working with coal.

Brighter Planet, a sustainability technology company, discovered in a recent survey that although more firms are engaging in green activities, the effectiveness of these efforts has declined.⁸³ Some believe that the problem with CSR is that it consists of a universal set of guidelines such as the “triple bottom line” (society, environment, and economy) mentioned previously. To be “socially responsible,” each firm has to follow the same guidelines instead of what would be the most appropriate strategy for each firm. Using this logic, it would be more logical for oil companies such as BP to focus on being profitable, yet be an environmentally conscious oil company. Fast-food restaurants such as McDonald’s and retailers such as Walmart should each use a different set of rules to do the same thing in their own industries.

There are those who believe that all shareholders should not be required to be involved in CSR investments. They think that only investors who want to be involved should participate. These investors would do so with the understanding that the objective is not just to make money but also to do good. For example, an oil company such as Exxon could establish an alternative-energy subsidiary. Exxon would own a controlling stake, but funding would come from new investors who want to support alternative energy and thus be socially responsible. If the subsidiary was unsuccessful, the losses would be confined to the new investors. If it succeeded, the profits would be shared by all shareholders.⁸⁴

OBJECTIVE 2.10

Explain corporate sustainability.

Corporate Sustainability

Corporate sustainability has evolved from the more traditional view of CSR. According to the World Commission on Environment and Sustainability, the narrow definition of sustainability is “meeting the needs of the present without compromising the ability of future generations to meet their own needs.”⁸⁵ The Dow Jones World sustainability Index (DJSI) provides a good working definition of this term. They define it as, “An approach to creating long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social trends and challenges.”⁸⁶ In recent years, sustainability has been expanded to include the social, economic, environmental, and cultural systems needed to support an organization. This type of organization is capable of continuing both now and in the future. Evidently

FIGURE 2-2

How to Embed Sustainability Using HRM Tools

Source: SHRM Foundation, "HRM's Role in Corporate Social Responsibility and Environmental Sustainability," 2012, Alexandria, VA: SHRM Foundation, page 8. Accessed February 3, 2014, at www.shrmfoundation.org.

- **Employee attraction:** Using the organization's commitment to sustainability in recruitment helps attract more applicants and at the same time ensures the right "fit" with the company's sustainability goals.
- **Employee attitudes:** Although the research is unclear whether an organization's commitment to sustainability leads to higher employee retention, it does have positive effects on employee commitment and job satisfaction.
- **Employee skills and knowledge:** Many organizations provide initial and ongoing training and development on the knowledge and skills needed to achieve their sustainability goals, although the research on the impact of achieving sustainability goals is still limited.
- **Employee sustainability goal attainment:** Including sustainability targets in evaluation and compensation systems can lead to greater attention to and achievement of those goals.
- **Sustainability organizational climate:** Though the research is lacking in this area, a sustainability strategy will likely fail if the company's organizational climate does not appropriately support it.
- **Employee sustainability behaviors:** Supervisory and organizational support can lead to more sustainability behaviors in employees.

the importance of corporate sustainability is being taken seriously because every manufacturer on the S&P 500 reported some form of sustainability disclosure in 2012.⁸⁷

Corporate sustainability may be thought of as being a business and investment approach that strives to use the best business practices to meet the needs of current and future shareholders. HR professionals play an important role in promoting corporate sustainability objectives. Figure 2-2 illustrates how HR professionals can use their expertise toward this end. Today it relates to how an organization's decisions could affect society and the environment as a whole. Essentially it is about how a firm handles its business while understanding how these decisions may affect others. One could think of corporate sustainability in a business sense as providing long-term profitability. Thus, sustainability should be a fundamental part of business strategy, product development, talent development, and capital investment. Some organizations have emphasized the importance of corporate sustainability by establishing the position of chief sustainability officer.⁸⁸

Others such as Johnson & Johnson prefer to see it developed into the overall culture of the firm. Tish Lascelle, Johnson & Johnson's senior director environment, said, "Sustainability is embedded in our culture. It's been a part of who we are for more than 65 years, long before the notion of sustainability became trendy."⁸⁹ The following Watch It video illustrates how a company has taken to become, and remain, a "mission-driven business" with corporate social responsibility as one of its mission's core values.



HR Web Wisdom

Deloitte Sustainability Are You Overlooking Opportunities?
<http://www.deloitte.com/us/sustainability>

Many executives are turning to sustainability to help improve the bottom line.

★ Watch It 2

If your instructor has assigned this, go to MyManagementLab to watch a video titled *Honest Tea: Corporate Social Responsibility* and to respond to questions.

Numerous companies are working toward becoming eco-friendly. Unilever has placed sustainability at the core of its business. The company promised by 2020 to double its sales even as it cuts its environmental footprint in half and sources all its agricultural products in ways that don't degrade the Earth.⁹⁰ Target's waste-reduction efforts have cut waste by 70 percent. Home Depot attempts to make sure that wood and lumber sold in its stores come from sustainable forests. Corporate environmental responsibility for McDonald's focuses on energy efficiency, sustainable packing and waste management, and green restaurant design.⁹¹ McDonald's has eliminated the use of containers made with ozone-depleting chlorofluorocarbons, cut down on the amount and type of packaging it uses, and implemented a program of purchasing goods made from recycled materials. Walmart is working on sustainable initiatives. Solar panels are being installed in all of the retailer's super centers with unused energy being sold back into the energy grid, a cost-saving move for the community.⁹²

Increasingly, environmentally sound and cost-cutting operating procedures are being included in firms' business plans not only for their own employees, products, and facilities, but also for suppliers and trade partners. Walmart Stores Inc. has initiated and promoted sustainability not only in its own stores and production facilities, but also for its U.S. and global suppliers.⁹³ Frito-Lay, which operates the world's seventh-largest private delivery fleet, has put 176 all-electric box trucks on the road in places such as California, Texas, and the Pacific Northwest. The trucks are expected to cut diesel consumption by 500,000 gallons a year while limiting greenhouse emissions by 75 percent compared with combustion engines. The trucks will also cut annual maintenance costs by as much as \$700,000.⁹⁴ Coca-Cola Enterprises Corporate Responsibility and Sustainability Report stated that they have taken steps to reduce the number of calories per liter by five percent by 2014. Also, Sprite was relaunched in 2013 leading to a 30 percent reduction in calories.⁹⁵

Approximately 62 percent of large and medium-sized companies worldwide have an active sustainability program in place, and another 11 percent are developing one, according to a sustainability survey commissioned by consulting firm KPMG.⁹⁶ Corporate Knights, a Toronto-based media company and sustainability reporter, recently released its seventh annual report of the world's best sustainable corporations. The top five U.S. companies with the most green-friendly, sustainable practices were Johnson & Johnson, Intel Corp., GE, Agilent Technologies, Inc., and Johnson Controls Inc.⁹⁷

PPG Industries recently issued a corporate sustainability report that provides information about the company's financial performance, environmental metrics such as greenhouse gas emissions and energy use, safety statistics, stakeholder engagement, philanthropic activities, and awards and recognition. In the report, Charles E. Bunch, PPG chairman and CEO, said, "Sustainability is business as usual at PPG. An underlying principle for the company since its founding in 1883, a commitment to sustainability has been crucial to our long-term success."⁹⁸ Leading up to 2020, PPG will strive to reduce environmental impact, improve employees' safety, health and well-being and encourage and report employee charitable donations and volunteerism.⁹⁹ Dow Chemical's way of thinking regarding sustainability is, "If you can't do it better, why do it?" This philosophy is at the very heart of sustainability at Dow. Every decision is made with the future in mind.¹⁰⁰

Institutional investors managing more than \$1.6 trillion in assets are starting to put pressure on the world's 30 largest stock exchanges to force companies to improve their sustainability reporting. Twenty-four institutional shareholders said they want it to be easier to judge the environmental, social, and governance risks of the firms in which they invest.¹⁰¹

Sustainability has also become extremely popular for companies operating in the global environment. Recently, Danone's German division switched to a plastic made from plants (not oil) for its Activia yogurt packaging sold in Germany.¹⁰² Coca-Cola Enterprises in Great Britain has cut its carbon emissions by 470,000 tons, which is about a third of its 2020 target. It is also recycling 99 percent of the factory waste it produces, with five out of six of its production sites sending zero waste to landfills.¹⁰³ Global polystyrene leader Styron LLC has more than 2,000 employees at 20 plants worldwide with annual sales of \$5 billion. It begins each corporate meeting with the topic of sustainability. Employees' bonuses are tied in to meeting sustainability goals. Recently, Styron introduced a recycled-content grade of polycarbonate at the Chinaplas trade show in Guangzhou, China.¹⁰⁴ Renault partnered with Veolia Environment to build the world's first zero-emissions, 100-percent renewable energy-reliant car manufacturing plant in Morocco.¹⁰⁵

OBJECTIVE 2.11

Describe a social audit.

Social audit

Systematic assessment of a company's activities in terms of its social impact.

Conducting a Social Audit

To overcome the negative publicity of corporate misdeeds and to restore trust, businesses are now conducting audits of their social responsibility activities and not just financial audits. A **social audit** is a systematic assessment of a company's activities in terms of its social impact.

Some of the topics included in the audit focus on core values such as social responsibility, open communication, treatment of employees, confidentiality, and leadership. Firms are now acknowledging responsibilities to various stakeholder groups other than corporate owners.¹⁰⁶

Some audits even set specific objectives in social areas. They are attempting to formally measure their contributions to various elements of society and to society as a whole. An increasing number of companies, as well as public and voluntary sector organizations, are trying to assess their social performance systematically. Three possible types of social audits are currently being

used: (1) simple inventory of activities, (2) compilation of socially relevant expenditures, and (3) determination of social impact. The inventory is generally a good starting place. It consists of a listing of socially oriented activities undertaken by the firm. Here are some examples: minority employment and training, support of minority enterprises, pollution control, corporate giving, involvement in selected community projects by executives, and a hard-core unemployment program. The ideal social audit would go well beyond a simple listing and involve determining the true benefits to society of any socially oriented business activity.

OBJECTIVE 2.12

Explain whether corporate social responsibility can succeed in the global environment.

Can Corporate Social Responsibility Succeed in the Global Environment?

The global environment has traditionally judged management primarily on furthering the firm's bottom line. If this is so, it may be easier to be socially responsible in a prospering economy but more difficult when the economy is bad. Recently, some global firms appear to be questioning the wisdom of being socially responsible. The question being asked is, "Can firms competing in the global environment continue the lowest possible production costs while still being in compliance with national laws and also be socially responsible?"

Even before the recent recession began, corporations and their contractor manufacturers (often Korean, Taiwanese, and Hong Kong companies operating throughout the world) focused on obtaining the lowest production costs regardless of the accompanying social and environmental impacts. As labor costs have increased in China, companies quickly moved their manufacturing to lower labor cost countries such as Cambodia, Laos, India, and Vietnam.¹⁰⁷ No consideration was made for the workers and families of the workers who were left behind.

Although some companies continue to say that they are fully committed to CSR, their less-than-socially-responsible behavior does not support their stated commitment.¹⁰⁸ The garment factory building collapse in Bangladesh in 2013 stands among history's worst industrial disasters, officially claiming 1,127 lives. The tragedy raised questions about the liability of western retailers for the working conditions of those in their supply chains.¹⁰⁹ For instance, it exposed defects in the CSR machinery of Loblaw, Canada's largest grocer. Loblaw had launched significant CSR programs tackling a wide variety of environmental, labor, and social issues. But it proved wholly insufficient to protect its brand from this disaster, much less ensure the safety of Bangladeshis making Joe Fresh garments.¹¹⁰ In previous years, a fire in a garment factory in Bangladesh killed 29 workers and hundreds were injured as they were suffocated, burned alive, were trampled in stairwells, or leapt to their deaths from the ninth and tenth floors because four of seven exit doors were locked. After more than 15 years of CSR programs, female garment workers continue to die making clothing for retailers such as Abercrombie & Fitch, Kenneth Cole, DKNY, Gap, Tommy Hilfiger, H&M, Izod, JC Penney, Calvin Klein, Kohl's, Lee, North Face, OshKosh, Sears, Target, Timberland, Wrangler, and Walmart. Moreover, Bangladesh's garment workers are among the worst paid in the world.¹¹¹

There is a growing recognition among some leading global CSR organizations that the first 15 years of CSR efforts have not produced the desired results, and that significant changes will have to be made if CSR is to be anything more than an expensive exercise in "reputational management." Dan Rees, director of the UK's Ethical Trading Initiative, said, "CSR in general has become a bit of a victim of its own hype. . . we have to stop pretending that companies in and of themselves can on their own transform industrial relations in foreign lands."¹¹² However, a recent study does not fully support these conclusions. In the study on global CSR conducted during the economic breakdown, 44 percent believe that CSR policies will be applied more often as a result of the crisis, 28 percent think that the real meaning of CSR will change in the framework of the new conditions, and 22 percent believe that the crisis will have a negative impact on CSR.¹¹³

★ Try It!

If your instructor has assigned this, go to MyManagementLab to complete the Management & Ethics simulation and test your application of these concepts when faced with real-world decisions.

Summary

1. **Define ethics, corporate social responsibility, and corporate sustainability.** *Ethics* is the discipline dealing with what is good and bad, right and wrong, or with moral duty and obligation. *Corporate social responsibility* is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves, and *corporate sustainability* focuses on the possible future impact of an organization on society, including social welfare, the economy, and the environment.
2. **Explore business ethics.** Business ethics addresses matters of choices about right and wrong made by business leaders.
3. **Describe sources of ethical guidance.** One might use a number of sources to determine what is right or wrong, good or bad, and moral or immoral such as holy books, or one's conscience. Another source of ethical guidance is the behavior and advice of people, including our parents, friends, and role models and members of our churches, clubs, and associations. For most professionals, there are codes of ethics that prescribe certain behavior.
4. **Discuss attempts at legislating ethics.** There have been four attempts to legislate business ethics since the late 1980s: the Procurement Integrity Act, the Federal Sentencing Guidelines for Organizations, the Corporate and Auditing Accountability, Responsibility and Transparency Act, and the Dodd-Frank Wall Street Reform and Consumer Protection Act.
5. **Explain the importance of creating an ethical culture and code of ethics.** An ethical culture is made up of factors such as ethical leadership, accountability, and values. The climate at the top is fundamental to a company's ethical culture. Ethical leadership begins with the board of directors and CEO and continues to middle managers and supervisors. Building an ethical culture that lasts requires a foundation of practices that continue even when leaders change.
A *code of ethics* establishes the rules that the organization lives by. Only a few companies have made ethics and compliance a process for determining how employees are compensated.
6. **Define human resource ethics.** *Human resource ethics* is the application of ethical principles to HR relationships and activities.
7. **Discuss the importance of linking pay to ethical behavior.** It is well known in the compensation world that "what you reward is what you get." If the statement is correct, then a problem exists with regard to compensation because most companies do not link pay to ethical behavior.
8. **Describe ethics training.** Ethics training is not merely for top-level managers; it should be for everyone from the bottom to the top. Companies that consistently rank high on the lists of best corporate citizens tend to make ethics training part of a company-wide initiative to promote integrity. Ethics training should be part of a proactive, not reactive, strategy. Regular training builds awareness of common ethical issues and provides tools for effective problem solving.
9. **Describe the concept of corporate social responsibility.** *Corporate social responsibility* is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves.
10. **Explain corporate sustainability.** *Corporate sustainability* has evolved from the more traditional corporate social responsibility. According to the World Commission on Environment and Sustainability, the narrow definition of sustainability is "meeting the needs of the present without compromising the ability of future generations to meet their own needs." In recent years, sustainability has been expanded to include the social, economic, environmental, and cultural systems needed to support an organization. This type of organization is capable of continuing both now and in the future.
11. **Describe a social audit.** A *social audit* is a systematic assessment of a company's activities in terms of its social impact.
12. **Explain whether corporate social responsibility can succeed in the global environment.** The global environment often judges management primarily on protecting the firm's bottom line. If this is so, it may be easy to be socially responsible in a prospering economy but more difficult when the economy is bad.

Key Terms

ethics 25

human resource ethics 31

corporate social responsibility
(CSR) 25

corporate sustainability 25

social audit 37

MyManagementLab®

Go to mymanagementlab.com to complete the problems marked with this icon .

Exercises

- ★ 2-1. As discussed in this chapter, a survey of 358 compliance and ethics professionals by the Society of Corporate Compliance and Ethics (SCCE) and Health Care Compliance Association found that only a few companies have made ethics and compliance a process for determining how employees are compensated, and only about one company in six ties employee bonuses and incentives to ethical performance. Should companies link pay to ethical behavior? What might the pros and cons be? Explain your answer.
- 2-2. These days, more employers are publicly endorsing a culture of ethics and social responsibility. However, some believe that it is being done more as a public relations campaign. Do you accept this belief? Defend your position.

Questions for Review

- 2-3. What laws have been passed in an attempt to legislate ethics?
- 2-4. Why is it important to have a code of ethics?
- ★ 2-5. With regard to business ethics, what does the statement "what you reward is what you get" mean?
- 2-6. What are HR ethics?
- ★ 2-7. What are the areas in which HR professionals can have a major impact on ethics?
- 2-8. What is corporate social responsibility?
- 2-9. What does corporate sustainability mean?
- ★ 2-10. Why might it be difficult for corporate social responsibility to succeed in the global environment?

INCIDENT 1 An Ethical Flaw

Amber Davis had recently graduated from college with a degree in general business. Amber was quite bright, although her grades did not reflect this. She had thoroughly enjoyed school, dating, playing tennis, and swimming, but found few stimulating academic endeavors. When she graduated, she had not found a job. Her dad was extremely upset when he discovered this, and he took it upon himself to see that Amber became employed.

Amber's father, Allen Davis, was executive vice president of a medium-sized manufacturing firm. One of the people he contacted in seeking employment for Amber was Bill Garbo, the president of another firm in the area. Mr. Davis purchased many of his firm's supplies from Garbo's company. After telling Bill his problem, Allen was told to send Amber to Bill's office for an interview. Amber went, as instructed by her father, and before she left Bill's firm, she was surprised to learn that she had a job in the accounting department. Amber may have been lazy, but she certainly was not stupid. She realized that Bill had hired her because he hoped that his action would lead to future business from her father's company. Although Amber's work was not challenging, it paid better than the other jobs in the accounting department.

It did not take long for the employees in the department to discover the reason she had been hired; Amber told them. When a difficult job was assigned to Amber, she normally got one of the other employees to do it, implying that Mr. Garbo would be pleased with that person if he or she helped her out. She developed a pattern of coming in late, taking long lunch breaks, and leaving early. When the department manager attempted to reprimand her for these unorthodox activities, Amber would bring up the close relationship that her father had with the president of the firm. The department manager was at the end of his rope.

Questions

- 2-11. From an ethical standpoint, how would you evaluate the merits of Mr. Garbo's employing Amber? Discuss.
- 2-12. Now that she is employed, what course would you follow to address her on-the-job behavior?
- 2-13. It may be that Mr. Garbo viewed the hiring of Amber as strictly a business decision that would ensure receiving continued business from Amber's father. What might be some negative results of this questionable ethical decision?

INCIDENT 2 “You Can’t Fire Me”

Norman Blankenship came in the side door of the office at Consolidation Coal Company’s Rowland mine, near Clear Creek, West Virginia. He told the mine dispatcher not to tell anyone he was there. Norman was general superintendent of the Rowland operation. He had been with Consolidation for 23 years, having started out as a mining machine operator.

Norman had heard that one of his section bosses, Tom Serinsky, had been sleeping on the job. Tom had been hired two months earlier and assigned to the Rowland mine by the regional personnel office. He had gone to work as section boss, working the midnight to 8:00 A.M. shift. Because of his age and experience, Serinsky was the senior person in the mine on his shift.

Norman took one of the battery-operated jeeps used to transport personnel and supplies in and out of the mine and went to the area where Tom was assigned. Upon arriving, he saw Tom lying on an emergency stretcher. Norman stopped his jeep a few yards away from where Tom was sleeping and approached him. “Hey, are you asleep?” Norman asked. Tom awakened with a start and said, “No, I wasn’t sleeping.”

Norman waited for Tom to collect his senses and then said, “I could tell that you were sleeping, but that’s beside the point. You weren’t at your workstation. You know that I have no choice but to fire you.” After Tom had left, Norman called his mine foreman and asked him to come in and complete the remainder of Tom’s shift.

The next morning, Norman had the mine HR manager officially terminate Tom. As part of the standard procedure, the mine HR

manager notified the regional HR manager that Tom had been fired and gave the reasons for firing him. The regional HR manager asked the mine HR manager to get Norman on the line. The regional HR manager said, “Norm, you know Tom is Justus Frederick’s brother-in-law, don’t you?” Frederick was a regional vice president. “No, I didn’t know that,” replied Norman, “but it doesn’t matter. The rules are clear. I wouldn’t care if he was Frederick’s son.”

The next day, the regional HR manager showed up at the mine just as Norman was getting ready to make a routine tour of the mine. “I guess you know what I’m here for,” said the HR manager. “Yeah, you’re here to take away my authority,” replied Norman. “No, I’m just here to investigate,” said the regional HR manager.

By the time Norman returned to the mine office after his tour, the regional HR manager had finished his interviews. He told Norman, “I think we’re going to have to put Tom back to work. If we decide to do that, can you let him work for you?” “No, absolutely not,” said Norman. “In fact, if he works here, I go.” A week later, Norman learned that Tom had gone to work as section boss at another Consolidation coal mine in the region.

Questions

- 2-14. What would you do now if you were Norman?
 2-15. Do you believe the regional HR manager handled the matter in an ethical manner? Explain.

MyManagementLab®

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 2-16. Why should a firm want to create an ethical culture?
 2-17. Why is everyone not on board with regard to corporate social responsibility?

Endnotes

Scan for Endnotes or go to <http://www.pearsonhighered.com/mondy>

