After studying this chapter, you should be able to do the following:

15.1 Discuss the term ethics and the factors that commonly contribute to unethical behavior. PAGE 511

15.2 Briefly discuss each of the identified ethical approaches and the factors to consider in creating codes of organizational ethics. PAGE 517

15.3 Discuss the terms authority, responsibility, and accountability and how they relate to ethical behavior. PAGE 520

15.4 Identify some of the common ethical issues that managers face in business. PAGE 522

15.5 Contrast the concepts of equal employment opportunity, affirmative action, diversity, and inclusion. PAGE 524

15.6 Define corporate social responsibility (CSR) and briefly discuss the “business case” for CSR. PAGE 531

15.7 Identify and briefly discuss the three levels of CSR available to the organization. PAGE 535

15.8 Briefly describe the concept of sustainability in a business context. PAGE 539

15.9 Explain strategies to recruit and hire people who match the demographics of the community the business serves and why it is ethical to practice diverse hiring. PAGE 544
At first glance, it may seem like we are putting together unrelated topics in this chapter. However, these topics are all related. Corporate social responsibility (CSR) is the overarching topic, and sustainability is part of CSR. However, when it comes to HR management, the HR department is usually responsible for developing the code of ethics and managing ethics. The HR department is also responsible for developing and implementing diversity programs, including recruiting and promoting diverse employees while creating equal opportunities for everyone through inclusion. Being ethical and promoting diversity and inclusion is also being socially responsible. However, depending on the size of the organization, CSR may be the responsibility of another department, or it may be under the HR department but managed by experts in the field of CSR. Sustainability can also be a separate department or come under the CSR or HR department. In any case, the HR department is involved in CSR and sustainability. So this chapter’s topics will follow the sequence in the chapter title, placing the major responsibilities of HR as the first two topics.

15.1 ETHICAL ORGANIZATIONS

LO 15.1 Discuss the term ethics and the factors that commonly contribute to unethical behavior.

The unethical character of some corporations globally has led to a decline in public confidence of managers. Acumen CEO Jacqueline Novogratz says we have experienced a technical revolution; the next chapter is a moral revolution. To improve ethics, business schools are teaching more ethics courses and including ethics as part of other courses, such as this one, like never before. Because ethics is so important, we will discuss it in three separate sections. In this section, we first define ethics and ethics in business, present some of the factors that contribute to unethical behavior, and explain how we justify our unethical behavior. Let’s begin by completing Self-Assessment 15.1 (online) to determine how ethical your behavior is.
Ethics Defined

*Ethics* has been defined in many books and articles. Let’s do a quick review here of some of the common definitions of *ethics* and then see if we can apply those definitions to business ethics.

- “Ethics is a reflection on morality, that is, a reflection on what constitutes right or wrong behavior.”
- “[Ethics is] the principles, values and beliefs that define right and wrong decisions and behavior.”
- “Ethics is a set of moral principles or values which is concerned with the righteousness or wrongness of human behavior and which guides your conduct in relation to others.”

You might notice these definitions all have some common elements: morals, values, beliefs, and principles of conduct. So for our purposes, *ethics* is the application of a set of values and principles in order to make the right, or good, choice. Right behavior is considered ethical, and wrong behavior is considered unethical.

Integrity

Note that ethics must include personal integrity to gain trust in your character from others. Lying is common and has long been identified as a critical unethical behavior. *Integrity* means being honest; lying, cheating, and stealing are unethical. If we do not think an individual can be trusted and that they lack integrity, we will not believe they will make ethical choices if there is an opportunity to enrich their personal situation, even to the detriment of others and the organization.

We constantly have to make decisions that are ethical or unethical. It is not always easy to distinguish between ethical and unethical behavior, such as accepting a gift (ethical) versus taking a bribe (unethical). But our objective is to help you know the difference.

Ethics in Business

There have been strong and recurring calls for more ethical business practices globally. To improve ethics, business schools have modified their curricula. They doubled the number of ethics-related courses to help students prepare to face ethical dilemmas during their careers. Let’s discuss some examples of costly unethical business practices and examine how it pays to be ethical.

Unethical Business Practices

Dishonesty has become an accepted part of daily life for many people in their personal and professional lives. Ethical failures can be costly and cause significant problems for organizations, customers, and society. *Facebook* has been accused of having a lack of moral compass, given how often it dilutes the truth, and for mismanaging users’ personal data and invading their privacy. *Apple* agreed to pay $500 million to settle a class action suit after admitting to slowing down older phones. *Boeing*’s engineering mistakes and culture of concealment, as well as pilots alleged misleading the FAA about the 737 MAX flight control system, led to the crashes of two 737s, killing all of the passengers and crew. The FAA is also accused of insufficient federal safety oversight of the 737. *Boeing* employees are facing possible criminal charges.

You probably recall that *Wells Fargo* pressured employees to open credit card and deposit accounts without customers’ knowledge for years. *Fortune* and other business periodicals estimated the scandal could cost Wells Fargo billions of dollars. Within a few months, credit card applications had fallen more than 50%, and new checking accounts dropped 43%. When a second scandal concerning auto insurance that was forced on auto loan customers hit the company about six months later, Wells Fargo took an even bigger hit to its bottom line. The CEO and at least six other executives ultimately lost their jobs, and organizational leaders, including the CEO, had
to pay back performance bonuses and stock grants—$69 million from the CEO alone. As of 2019, employees were still worried that the bank was on an unethical course.

This unethical behavior is costly to society as well. It has long-term negative consequences for companies, including hurt reputation, legal fees, and fines. Sales declines, increasing cost of capital, market share deterioration, and network partner loss can also be the result of unethical corporate behavior. Some companies have even gone out of business, and thousands of people have lost their jobs.

It Pays to Be Ethical

Some people ask, Does it pay to be ethical? The simple answer is yes. Research studies have reported a positive relationship between ethical behavior and leadership effectiveness. Being ethical may be difficult, but it has its rewards. Honest people have fewer mental-health and physical complaints, like anxiety and back pain, and better social interactions. On the reverse side, unethical behavior is costly, as it contributed to the 2007–2009 financial crisis that resulted in the world economy going into recession.

Let’s take a personal view. Many companies seek integrity in job applicants, and recall that they even test for ethics. Job satisfaction (happiness) comes from strong, rewarding relationships. Relationships are based on trust, and you get and keep friends and customers based on trust. Unethical behavior that you justify might give you some type of short-term gain, but in the long run, you’ve sabotaged yourself. How? Because we usually eventually get caught being dishonest and lose people’s trust—hurting our relationships, sometimes losing friends, and even going to jail (like Bernie Madoff for his Ponzi scheme).

Victims of dishonesty often use counterproductive behavior and revenge tactics. It can take years to build trust and only one lie to destroy it. How many friends do you have that are dishonest with you and take advantage of you for your own personal gain at your expense? According to founder and CEO Ray Dalio of Bridgewater hedge fund, being radically truthful and transparent pays off in excellent performance. So yes, truth absolutely, unequivocally does matter. At the end of the day, the truth is all that matters.

Contributing Factors to Unethical Behavior

Most people understand right and wrong behavior and have a conscience. So why do good people do bad things? Most people aren’t simply good or bad. Almost everyone will be unethical at times, at least a little. If you want to have integrity, here are four things to realize that can influence your behavior in the right or wrong direction.

Personality Traits and Attitudes

You probably already realize that because of their personalities, some people have a higher level of ethics than others, as integrity and conscientiousness are considered personality traits. Unfortunately, a culture of lying and dishonesty is infecting American business and society as these behaviors have become more common and more accepted. Some people are at the point that they don’t even realize they are dishonest and don’t see anything wrong with lying. Others lie deliberately, based on the attitude that lying is no big deal; some people don’t even realize they are liars.

Moral Development

A second factor affecting ethical behavior is moral development, which refers to distinguishing right from wrong and choosing to do the right thing. People’s ability to
make ethical choices is related to their level of moral development. There are three levels of personal moral development illustrated in Exhibit 15.1.

- At the first level, the *preconventional* level, a person chooses right and wrong behavior based on self-interest and the likely consequences of the behavior (reward or punishment).
- The *conventional* level seeks to maintain expected standards and live up to the expectations of others. Most people are on this level and do as the others in their group do—they easily give in to peer pressure to act ethically or unethically.
- Those at the third level, the *postconventional* level, make an effort to define moral principles for themselves; regardless of leaders’ or the group’s ethics, they do the right thing. People can be on different levels for different issues and situations.

### Exhibit 15.1

#### Levels of Moral Development

<table>
<thead>
<tr>
<th>LEVEL</th>
<th>DESCRIPTION OF BEHAVIOR AND JUSTIFICATION</th>
<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Postconventional</td>
<td>Behavior is motivated by universal principles of doing what is right, regardless of boss or peer pressure to be unethical.</td>
<td>“I don’t lie to customers because it’s wrong to do so.”</td>
</tr>
<tr>
<td></td>
<td><em>There is no justification for unethical behavior; no excuses, don’t do it.</em></td>
<td></td>
</tr>
<tr>
<td>2. Conventional</td>
<td>Behavior is motivated by the desire to be accepted by copying the behavior of bosses or peers that can pressure members to copy their behavior.</td>
<td>“I lie to customers because the other sales reps do it, too.”</td>
</tr>
<tr>
<td></td>
<td><em>Unethical behavior is justified because everyone does it.</em></td>
<td></td>
</tr>
<tr>
<td>1. Preconventional</td>
<td>Self-interest motivates behavior; people act to meet their own needs for personal gain.</td>
<td>“I lie to customers to sell more products and get bigger commission checks.”</td>
</tr>
<tr>
<td></td>
<td><em>No need to justify the behavior because it’s OK to do it.</em></td>
<td></td>
</tr>
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### Level of Moral Development

Place the letter of the level of moral development on the line next to the statement that illustrates it.

- a. preconventional level
- b. conventional level
- c. postconventional level
We respond to incentives and can usually be manipulated to behave ethically or unethically if we find the right incentives.44 The incentive (or reason we are unethical at times) is usually for personal gain45 or to avoid getting into trouble; for some people, they don’t believe the rules apply to them.46 Why did people at Countrywide Financial give mortgages to people whose homes would most certainly be repossessed?47 Why did people at Wells Fargo Bank open accounts that customers didn’t ask for? There were financial gains for doing so, and some employees feared losing their jobs if they didn’t meet high quotas. Some Uber (and taxi) drivers take riders the long way (long-hauling)48 and some insurance agents including Aflac sell people insurance they don’t really need.49 Why? To increase their income.

The Situation

Sometimes, we face difficult situations that tempt us to lie or use other unethical behavior that tests our ethical character.50 Recall that the right incentives result in almost everyone behaving unethically, 51 including when peers52 and bosses pressure us to be unethical to compromise our ethical standards.53 Unsupervised people in highly competitive situations are more likely to engage in unethical behavior. Unethical behavior occurs more often when there is no formal ethics policy or code of ethics and when unethical behavior is actually rewarded and not punished. People are more unethical when they believe they will not get caught.54 An example of a highly competitive situation is from Cambridge Analytica. Using Facebook analytics, Cambridge sought to misuse the data of millions of unsuspecting Facebook users to build voter profiles and attempt to sway people to vote for Donald Trump in the 2016 U.S. presidential race.55

Unethical behavior is also more likely when performance falls below aspiration levels—losing, cheat to win. People are also less likely to report unethical behavior (blow the whistle) when they perceive the violation as not being serious or when they are friends of the offender. It takes high moral responsibility to be a whistle-blower.

Justification of Unethical Behavior

Most people understand right and wrong behavior and have a conscience. So why do good people do bad things? Most often, when people behave unethically, it is not because they have some type of character flaw or were born bad. Most people aren’t simply good or bad. Just about everyone has the capacity to be dishonest.56 One percent of people will always be honest, 1% will always be dishonest, and 98% will be unethical at times—but just a little.57 We respond to incentives and can usually be manipulated to behave ethically or unethically, if we find the right incentives.58

Few people see themselves as unethical. We all want to view ourselves in a positive manner. Therefore, when we do behave unethically, we often justify the behavior to
protect our self-concept so that we don’t have to feel bad. If we only cheat a little, we can still feel good about our sense of integrity. Here are some common justifications for our unethical behavior.

- **Everyone else does it**—we all cheat in college; everyone takes things home (steals).
- **I did it for the good of others or the company**—I inflated the revenues so the company looks profitable; we are not terrorists but, rather, freedom fighters who kill to help our cause.
- **I’m not as bad as the others**—I only call in sick when I’m not sick once in a while.
- **Disregard for or distortion of consequences**—No one will be hurt if I inflate the figures, and I will not get caught. And if I do, I’ll just get a slap on the wrist anyway. **Boeing** had incentives to ignore a potential safety issue with their 737 MAX aircraft, whose production had already been significantly delayed, especially since they may have thought that it would never become an obvious problem and no one would get hurt or killed.

Have you faced either of these two justifications?

- **My peers made me do it; peer pressure**—I didn’t want to help them to get paid for not working; I only drank on the job because others encouraged me to.
- **My boss made me do it (lie, steal, cheat); I was only following orders**—At **NationsBank**, employees were pressured to sell higher-commission mutual funds to clients that were not in their clients’ best interest.

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**15.2 APPLYING THE CONCEPT**

**Justifying Unethical Behavior**

Place the letter of the justification given for engaging in unethical behavior on the line next to the statement exemplifying it.

- a. **Everyone else does it**
- b. **I did it for the good of others or the company**
- c. **I’m not as bad as the others**
- d. **Disregard or distortion of consequences**
- e. **My peers made me do it; peer pressure**
- f. **My boss made me do it; lie, steal, cheat**

  - 7. **Don’t blame me. It was the boss’s idea to do it. I just went along with it.**
  - 8. **It’s no big deal that I lie to customers because no one gets hurt. In fact, I’m helping them buy a good product.**
  - 9. **I changed the production output numbers so the department will look good on our quarterly report to top management.**
  - 10. **Yes. I do lie to customers, but it’s the way we do business here.**
  - 11. **I do take some of the company product home, but I take a lot less than the others.**
  - 12. **It’s not my fault. Henry made me punch him out at 5:00 when he left at 3:00.**
  - 13. **Yes. I took home some food, but the other guys do it too.**

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**Caution Against Escalation of Unethical Behavior**

Today, we live in a time of ethical confusion, with relativism saying there is no absolute truth or right or wrong—which contradicts itself by using an absolute. It’s tempting to change the rules or truth and be unethical for personal gain, justifying the behavior by telling ourselves it’s OK “to do whatever I want,” “to do what works for me,” or “to do what makes me feel good,” which often leads to unethical behavior.
Did the people at Wells Fargo and other companies start out planning to lie, cheat, and steal? Most didn’t. What tends to happen is the company doesn’t hit the target numbers, and the employees think, “Let’s give inflated numbers this quarter, and we will make it up next quarter, and no one will know or get hurt in any way.” Ever notice that one lie leads to another—and another? The problem is, for several quarters, the same thing happens, so they get to the point of not being able or willing to admit their unethical or illegal behavior until they get caught. Little white lies are not little.

It is important to understand the subtlety of how unethical behavior can take hold of you. The first time we use unethical behavior is harder, but it gets easier, and one lie leads to others. Our memory tends to fade as we forget about unethical behavior, so we repeat it, and it can become a habit for some. And especially if we don’t get caught, it becomes easier to be unethical. The things we do repeatedly determine our ethical character. The moral of the story is don’t take the first step that leads to escalation of unethical behavior.

15.2 ETHICAL APPROACHES

Briefly discuss each of the identified ethical approaches and the factors to consider in creating codes of organizational ethics.

Several common ethical views, approaches, or guidelines exist to help you make ethical choices. Understanding some of these approaches will help you resolve ethical dilemmas that you will certainly face at work. Let’s discuss three views and four guides to ethical behavior now and codes of ethics in the next section.

**Views on Ethics**

Here are three ways to view ethics. However, we should try to implement them all based on the situation.

- The *utilitarian view* states that ethical decisions should be based on creating greater good for society (provide the greater good for the greatest number based on consequences or outcomes of actions).
- The *rights view* states that ethical decisions should respect and protect individual privileges (e.g., right to privacy, free speech).
- The *justice view* states that ethical decisions should be made to treat everyone fairly and impartially. (Don’t discriminate, which we will discuss later in this chapter.)

**General Guides to Ethical Decision Making**

Having a general guideline or framework assists in evaluating a situation and staying on an ethical decision-making path.

**Golden Rule**

Do you know the golden rule? “Do unto others as you would have them do unto you,” or “Don’t do anything to anyone that you would not want someone to do to you.” Most successful people live by the golden rule. This is a moral principle in virtually every religious text in the world. Following the golden rule will help you to be ethical. The workplace and world could change overnight if we all followed this one simple guide to our behavior.

**Four-Way Test**

Rotary International has a motto, “Service Above Self.” This is a great motto to live by because helping others, as opposed to the “What can you do for me?” mentality, will improve relationships. Rotary uses a four-way test to determine ethical behavior:

1. Is it the truth?
2. Is it fair to all concerned?
3. Will it build goodwill and better friendship?
4. Will it be beneficial to all concerned?

If the answers are yes, then the action is probably ethical.
Stakeholders’ Approach to Ethics

The stakeholders’ approach tries to create win-win results for all stakeholders affected by the decision. You can’t always create a win for everyone, but you can try. Unfortunately, this is not easy because multiple stakeholders often have conflicting interests, such as in a layoff. However, as Salesforce.com CEO Marc Benioff says, to successfully manage a modern organization, you need to have multistakeholder dialogues. This is the approach put forth by Warren Buffett at Berkshire Hathaway, known as one of the most ethical organizations in business today. Exhibit 15.2 gives the statement taken from Berkshire’s Code of Business Conduct and Ethics.

**EXHIBIT 15.2**

**Berkshire Hathaway Code of Business Conduct and Ethics**

When in doubt, remember Warren Buffett’s rule of thumb:

I want employees to ask themselves whether they are willing to have any contemplated act appear the next day on the front page of their local paper—to be read by their spouses, children and friends—with the reporting done by an informed and critical reporter.


So if you are comfortable telling people who are affected by your decision what you have decided, it is probably ethical. But if you keep justifying and rationalizing the decision and try to hide it from others, it is quite likely unethical—at least to some of the affected stakeholders.

Discernment and Advice

Making a decision without using an ethical guide leads to less ethical choices. Using ethical guides at the point of making a decision helps keep you honest. Next time you are about to lie, pause and ask yourself, “Why am I considering lying?” If you are unsure whether a decision is ethical, talk to your boss, higher-level managers, and other people with high ethical standards. If you are reluctant to ask others for advice on an ethical decision because you may not like their answers, the decision may not be ethical.

Application of Ethical Guides

Using the aforementioned ethical guides at the point of making a decision helps keep you honest. So if you want to develop, maintain, or improve your relationships, be ethical and get in the habit of using an ethical guide when making decisions. Are you willing to commit to doing so now?

Each of these ethical approaches should cue you to think about some concepts that we have previously discussed in this text—trust, integrity, and consistency. If you recall our conversation about trust in Chapter 10, you will remember that trust is “faith in the character and actions of another.” Does that sound familiar when you take a look at the definitions of ethics given earlier? Without trust, we cannot successfully manage others in the organization for very long, so we have to do what we said we would do consistently over time in order to get our stakeholders to trust us.

So integrity (honestly doing what you say you will do) and trust (the expectation that you will continue to do so) are important to everyone, especially managers in the firm, because research shows that companies with leaders who have the trust of employees have lower turnover and higher revenue, profitability, and shareholder returns.

Organizational Ethics

An organization’s ethics are based on the collective behavior of its employees. If each individual is ethical, the organization will be ethical. It’s management’s job to help ensure that everyone in the firm follows ethical behavior. Some organizations take ethics very seriously and even compete to be listed in the World’s Most Ethical Companies, including 3M, Best Buy, DCC, Dell, HP, and L’Oréal.
But how can managers get others to be trustworthy and make decisions based on ethical principles, values, beliefs, and character? Most large organizations (like Buffett’s Berkshire Hathaway) today use a code of ethics, sometimes called a code of conduct.

**Codes of Ethics**

Codes of ethics state the importance of conducting business in an ethical manner and provide moral-standard guidelines (dos and don’ts) for ethical behavior to project the values and beliefs of the organization to their employees. Following a code of ethics is actually an ethical approach. The *Houston Chronicle* provides a good template on their chron.com website for an organizational code of ethics that includes the following factors:77

**Values**

Values are our basic concepts of good and bad, or right and wrong. Values come from our society and culture. Every culture has concepts of right and wrong, although these values do vary some from culture to culture. (We will discuss this further in Chapter 16.) The *Chronicle* article notes that “the value-based code of ethics sets the tone for how things are done.”78

**Principles**

Principles are a basic application of our values. We apply principles to specific situations in order to come up with a set of actions that we consider ethical. An example of an ethical principle would be to maintain personal integrity. This is obviously based on the application of the values of honesty. Another example would be the principle to treat all employees fairly. A good example here would be W. Kent Taylor, CEO of Texas Roadhouse, who gave up his salary and bonuses for the remainder of the year in March 2020 in order to pay his employees who were out of work due to the COVID-19 viral outbreak.79

**Personal Responsibility**

This is the concept that everyone in the organization is responsible for the ethical conduct of business, not just “the boss.” Personal responsibility also refers to being accountable for our own actions and living with the consequences of our decisions.

Remember that the code of ethics is important because a culture of misconduct can result in higher turnover and lower productivity and profitability.80 Management always has to take the lead in being ethical, or employees will not perform.

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**15.3 APPLYING THE CONCEPT**

Place the letter of the approach to making ethical decisions on the line next to the statement that illustrates it.

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>a. golden rule</td>
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<tr>
<td>b. four-way test</td>
<td></td>
</tr>
<tr>
<td>c. stakeholders’ approach</td>
<td></td>
</tr>
<tr>
<td>d. discernment and advice</td>
<td></td>
</tr>
<tr>
<td>e. code of ethics</td>
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</tbody>
</table>

14. This is a big decision to make. I’m going to take my time and give it some thought.

15. I’m a member of Rotary International, and I use its approach when I make decisions.

16. When I make decisions, I follow the guidelines the company gave all of us to use to make sure I’m doing the right thing.

17. I try to make sure that everyone affected by my decisions gets a fair deal.

18. I try to treat people the way I want them to treat me.

19. So Tanya, what do you think of my decision about how to handle this situation?
15.3 CREATING AND MAINTAINING ETHICAL ORGANIZATIONS

LO 15.3 Discuss the terms authority, responsibility, and accountability and how they relate to ethical behavior.

Creating a code of ethics is important, but it takes more than a code to manage ethics. In order to understand what managers should do to implement ethical behavior, we need to look at what they can do, based on authority, responsibility, and accountability. Let’s look at these two issues in an organizational setting.

Managing Ethics

It’s management’s job to help ensure that everyone in the firm uses ethical behavior. Here are four things that help lead to effective management of ethical employee behavior.

Living the Code of Ethics and Training

It is important to have a code of ethics, but having a nicely written document tucked away in a drawer or computer doesn’t help. For effective management of ethics, employees need to live the ethical values and principles in their daily work. Many large corporations have ethics officers responsible for developing their ethics codes and developing and conducting this training. For sample programs, visit Lockheed Martin’s website (www.lockheedmartin.com) and search for the code of conduct and ethics training programs.

Management Support

Managerial support, especially top-management support, is absolutely critical to a successful code of ethics. Why? Managers are ultimately responsible for the behavior of their employees, and they need to lead by setting an ethical example because employees tend to copy their behavior. Remember what Jack Welch, former CEO of GE, said, “We need to walk the talk.” If managers ignore the code of ethics—and even worse, behave unethically—theyselfs and reward unethical behavior of others, employees will likely imitate their behavior.

Enforcing Ethical Behavior

Managers need to remind employees to be ethical. Recall reinforcement theory (Chapter 7). Employees will do what they are rewarded for doing (being ethical) and avoid doing things they are punished for (unethical behavior). So if management does not take action to stop unethical behavior—and worse, if managers reward unethical behavior—it will continue and most likely escalate as others copy the unethical behavior. Many codes of conduct state the consequences of unethical behavior, which need to be enforced.

Whistle-Blowing

As a means of enforcing ethical behavior, employees should be encouraged to become internal whistle-blowers. Whistle-blowing occurs when employees expose what they believe to be unethical behavior by their fellow employees. Some organizations have anonymous-tip methods of reporting violations. Whistle-blowing should begin internally, and information should go up the chain of command. If nothing is done, then the whistle-blower can go outside the organization as a last resort. According to the law and ethics, whistle-blowers should not suffer any negative consequences. If any employee or manager takes any retaliation against the whistle-blower, they should be punished to ensure that others will not also retaliate and so that others will not fear retaliation for blowing the whistle.
Implementing Ethics Through Organizational Structure

As discussed in Chapter 2, to get the work of the organization completed, firms develop structures. Structure includes giving authority, responsibility, and accountability for getting jobs and tasks done, and the three need to be balanced. Let’s discuss it here.

Authority, Responsibility, and Accountability

Authority is the right to give orders, enforce obedience, make decisions, and commit resources toward completing organizational goals. Authority flows down the organization. The CEO is responsible for the results of the entire organization and delegates authority down the chain of command to complete the work. Managers must have some authority to utilize organizational resources in order to manage the areas assigned to them. So authority allows managers to tell people who work for them what to do and to use organizational resources in the course of their work following the code of ethics.

Responsibility is the obligation to answer for something or someone—the duty to carry out an assignment to a satisfactory conclusion. So responsibility means that when we are given authority, we have to accept a position-based obligation to the organization to use those resources that we are given to help the organization meet its goals implementing the ethics code. Usually, the person will implicitly “accept” responsibility by accepting the position and its commensurate authority. A manager can’t successfully delegate the responsibility to complete a task without giving the employee the authority to complete the task. Or authority and responsibility have to be balanced in the organizational context.

Accountability is the personal duty to someone else (a higher-level manager or the organization itself) to use organization resources effectively to complete an assignment. Accountability is evaluating how well individuals meet their responsibilities. In other words, the manager can be held personally liable for failing to use resources legally and unethically in the way they should to help the organization. If you get away with unethical behavior, it can escalate to more and larger transgressions.8 Most people get caught eventually. It’s the lies and cover-up, not the initial unethical behavior, that take people down.86

Putting It All Together

First let’s look at authority and responsibility. Henri Fayol, in his 14 principles of organizing, noted that authority and responsibility are linked, and they have to be balanced. Note that authority is a right to give orders, and responsibility is an obligation to answer for those orders. This means at its core that authority can be granted by the organization, but responsibility has to be accepted by the party. Peter Drucker also said, “Whoever claims authority thereby assumes responsibility.”86 In order to be allowed to use the authority given, the person must accept or assume responsibility.

Both of these concepts are tied to the position of the manager in the organization. In other words, if you have the position of HR manager, you may be given some types of authority (for instance, authority to require all employees to attend annual EEO and sexual harassment training). However, you have to accept the responsibility to carry out these training programs. If you do not accept the responsibility for doing so, then the authority needs to be rescinded. (You need to be taken out of the position of HR manager.)

If you accept responsibility, at that point, you become accountable (personally liable) for the effective completion of the action. In the case of the HR manager and training, you would have personal accountability, even if someone else who works for you actually sets up and does the training. Accountability goes beyond an obligation to do something for the organization. It now requires that the person be held to account for their actions—that they give reasons why they did or did not do a certain thing and justify how their actions helped the organization reach its goals ethically. So authority and responsibility give the manager rights and obligations based on their job in the company, but accountability concerns when they can be punished—in some cases, even go to prison—if they do not exercise their authority in a responsible legal and ethical manner.
You Can Never Delegate Your Accountability

On a personal note, as a manager, you delegate responsibility and authority to perform tasks, but you should realize that you can never delegate your own accountability. As a manager you are accountable for everything that happens in your department—or as the old saying goes, “The buck stops here”—with you.

Some CEOs and other managers have been fired or resigned for the actions of employees they did not authorize, they never gave the responsibility to do the action taken, and they didn’t even know about the unethical behavior. And if they did know, in most cases, they would have prevented or stopped the behavior if they knew it would occur. Some managers never even knew the action was happening until the employee got caught for the behavior and it became known within the firm (rumors spread fast)—or worse, the illegal or unethical behavior became public knowledge. But the bottom line is that regardless of circumstances, the manager is out of the job.

Doing the Right Thing

If you apply the concept of responsibility to the situation (an obligation to use those resources to benefit the organization), then it is easy to see that you are being unethical. If you then continue anyway, the consequences of your actions might cause you to be held accountable by the organization and potentially disciplined or even fired if you misuse resources. Every day we face making decisions to use ethical or unethical behavior to do our jobs. Again, following the ethical guidelines helps us make ethical decisions.

15.4 JUST BECAUSE IT'S LEGAL DOESN'T MEAN IT'S ETHICAL!

Let’s take an example to help put this all together. You are the manager in charge of purchasing products used in the daily operations of your company. The salesperson for a chemical company who has been trying to become your main chemical supplier just happens to have tickets to the concert that—you checked last week—is sold out, and your spouse really wants to go. The salesperson gives them to you after hearing your spouse loves the band. There are no strings attached... Or are there? Is this an ethical thing to do based on your position in the company? Even if the salesperson does not specifically ask for favorable treatment in return, can you be objective in your interactions in the future? Whether the tickets are worth $1,000 or $10, they still may cause you to fail to act in an ethical, responsible manner, and since you have purchasing authority, this can put you in a bad spot.

Facing Ethical Questions

Should you choose a favorite employee to do overtime work instead of the employee who is best for the job because you know your favorite needs extra money? Should you tell the manager of another department a small lie because you haven’t completed a project yet? Should you accept the concert tickets from the salesperson who wants your business? We have to learn to apply the concepts of authority, responsibility, and accountability constantly in order to avoid unethical actions, and in doing so, we gain the trust of others in the organization. We have to know the appropriate use of company assets and what constitutes misuse of those assets as well. What are some of the most common ethical issues that both managers and their companies have to deal with on an ongoing basis?

Compliance

The compliance factor can identify applicable laws or industry regulations that must be adhered to as part of the code of ethics. Certainly, the OSH Act, the Sarbanes-Oxley Act, and the Dodd-Frank Act would apply to pretty much all public companies, but other laws and regulations apply to certain industries and groups, so we need to note...
them in the code as well. This is just another reinforcement of the annual training we have to do regarding each law or regulation that covers our business and industry.

**Bribery**

A bribe is a payment meant to cause someone to make decisions that may help a person or an organization but do significant harm to other organizations or other stakeholders in the decision. The Foreign Corrupt Practices Act (FCPA) law bars U.S.-based or U.S.-listed companies from bribing foreign officials in exchange for business and requires them to keep accurate books and records. But it is sometimes hard to tell the difference between a legitimate business expense and a bribe. Thus, global companies need to clarify the difference in their code of ethics, top managers must set the example, and penalties for illegal behavior must be enforced. In a recent case where a company was determined to be acting illegally, telecommunications company Ericsson agreed to pay the Securities and Exchange Commission and the Department of Justice over $1 billion for using “sham consultants” to provide foreign officials with bribe money.  

**Corrupt Payments to Government Officials**

This type of payment is designed to allow the company to avoid scrutiny of their actions by government agencies or to facilitate a desired company action, such as building a new factory in an environmentally sensitive area. Walmart agreed to pay more than $282 million in 2019 to settle accusations of corrupt payments. Corrupt payments to government officials are also prohibited under the federal Foreign Corrupt Practices Act.  

**Employment and Personnel Issues**

Who to fire or hire or promote and changes in compensation and working conditions all can be affected by managerial decisions, which, in turn, will affect productivity, absenteeism, and turnover in the company. Uber is a good example of a company that has been accused of having managers that use bias in making personnel decisions, and as a result, its founder and CEO was forced to resign. In addition, in many countries, practices such as the use of child labor and forced labor by convicts are common. Many other discriminatory labor practices occur, but many of these practices are not only unethical but illegal in the United States and most European firms.

**Marketing Practices**

Dishonest marketing practices can ruin corporate reputations and even cause them to fail. Johnson & Johnson had a stellar reputation until a series of lawsuits that targeted the company and its subsidiaries, including asbestos in talcum powder products, hip joints and implants, the blood thinner Xarelto, and an abdominal mesh product. Most analysts now say the company may never fully regain its reputation. Countrywide Financial is another excellent example of a company that made billions of dollars by unethical marketing of low-documentation and no-documentation loans to individuals during the housing boom of the early 2000s. But finally, after being purchased by Bank of America, which agreed to a settlement of a series of class action lawsuits, it got back on its feet in 2020.  

**Impact on the Economy and Environment**

Unethical practices on the part of many financial firms (including Countrywide) are thought to be the main cause of the massive recession that started in late 2007. In addition, past practices in many industries have had a long-lasting (if not permanent) effect on the environment around the world. Examples include the use of asbestos long after we knew the health hazards, strip-mining leading to massive flooding in many countries, or recent concerns that some pesticide producers are possibly creating “super-bugs” that will be pesticide resistant.  

**Employee and Customer Privacy**

Due to advancements in technology, the ability to gather and maintain large amounts of personal data has become common in organizations. Use of such data must be for
legitimate business purposes only. You may recall that, along with the Cambridge Analytica scandal, Facebook was ordered by the U.S. Federal Trade Commission in 2019 to pay a $5 billion fine for deceiving its customers about the security and privacy of their information. Many of these customers felt as though this was not done for a legitimate business purpose.

There are also many companies who now monitor all employee communication on company computers and other devices. This monitoring can be to detect personal use of company systems during work, and it can also be used to monitor individual employee performance. This electronic performance monitoring is highly controversial in many companies. Is this universal monitoring ethical, or is it an invasion of employee privacy?

Of course, all of the information that we have discussed does no good unless and until the manager makes the choice to do the right thing—makes the ethical decision. And this is not always easy. In many cases, there is no single right or wrong decision—there are shades of gray. One decision may be more ethical, but it still harms some stakeholders, while the other decision harms more people and has fewer beneficiaries. In other cases, the ethical decision may be bad for us personally because it exposes the fact we may have made a previous decision that was wrong—for instance, we may have lied on a report to the federal government because our boss pressured us to, and now we have to verify that lie because evidence has been found that refutes it.

Here is the simplest takeaway we can provide you: If you don’t think about making the ethical decision before a situation arises that requires you to have integrity, you will probably make the expedient decision (the decision that does you the least personal harm) and not the ethical decision, and you will know this because you will not be willing to tell others what is going on and what decision you have made. So following the personal ethical guides (golden rule, four-way test, stakeholder’s approach, and discernment and advice) and the organizational code of ethics does help us make ethical decisions.

15.5 DIVERSITY AND INCLUSION

>>> LO 15.5 Contrast the concepts of equal employment opportunity, affirmative action, diversity, and inclusion.

Ethical organizations always choose to manage diversity and inclusion. In this section, we will discuss how to manage diversity through HR initiatives.

Implicit Association Test (IAT)

To complete this diversity self-assessment, go to the Project Implicit website at implicit.harvard.edu/implicit/demo. From there, under “Project Impact Social Attitudes,” you can select a “language/nation” and hit “Go.” Then click “I wish to proceed,” and select 1 of 14 tests to take, based on our diversity types with a breakdown of several races and other tests. Or your professor will select the one for you to complete. Simply follow the instructions at the site to complete a test, and get interpretations of your attitudes and beliefs about the diversity group you selected. It’s free, and you can take as many as you want to.

15.2 SELF-ASSESSMENT

EEO, Affirmative Action (AA), Diversity, and Inclusion: What’s the Difference?

You need to understand the terms equal employment opportunity (EEO), affirmative action, diversity, and inclusion to be successful. These are related terms, but they should not be used interchangeably. Let’s take a closer look at EEO, affirmative action, diversity, and inclusion. Exhibit 15.3 provides a summary of these four concepts.
Recall from Chapter 3 that the EEOC enforces federal and state employment laws and regulations. Equal employment opportunity (EEO) is the term that deals with a series of laws and regulations put in place at the federal and state government level over the last 45 years. As such, EEO is very specific and narrowly defined within federal and state laws. All organizations must obey the employment laws (including the specific EEO laws) and regulations.

**Affirmative Action**. On the other hand, affirmative action was created in the 1960s through a series of policies at the presidential and legislative levels in the United States. Affirmative action, except in a few circumstances, does not have the effect of law.\(^93\) Therefore, affirmative action is a much broader concept based on policies and executive orders (orders from the president) to help legally protected groups, often with quotas for minority groups. Affirmative action plans increase the number of women and minorities in several occupations and advancement in management and thus help to promote diversity at work. Thus, some organizations continue to have affirmative action programs.\(^1\) (SHRM J:11)

**Diversity and Inclusion**. Finally, diversity and inclusion are not required by law, nor are they necessarily even policies within organizations. Diversity and inclusion are a very broad set of concepts that deal with the differences among people within organizations and inclusion of all of those different individuals in the workforce. Today’s organizations view diversity and inclusion as valuable parts of their human resources makeup. However, there are no specific laws that create requirements for diversity and inclusion within organizations. We discussed EEO in detail in Chapter 3, so let’s now discuss affirmative action, diversity, and inclusion.

**Affirmative Action**

Affirmative action is a series of policies, programs, and initiatives that have been instituted by various entities within both government and the private sector that are designed to prefer hiring of individuals from protected groups in certain circumstances in an attempt to mitigate past discrimination. However, affirmative action policies and programs do not generally have the same effect as EEO laws. (SHRM J:1)

There are only two specific cases in which AA can be mandated or required within an

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**EXHIBIT 15.3**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Governance</th>
<th>Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>EEO</td>
<td>Federal (and state) law</td>
<td>Narrow, specific requirements and prohibitions</td>
</tr>
<tr>
<td>Affirmative Action</td>
<td>Executive orders, federal court orders, or voluntary</td>
<td>Policies that broadly define situations in which actions should be taken to balance a workforce with its surroundings</td>
</tr>
<tr>
<td>Diversity</td>
<td>Organizational voluntary policies</td>
<td>Designed to get a diversity of people to work well together and better serve a more diverse customer base</td>
</tr>
<tr>
<td>Inclusion</td>
<td>Organizational voluntary policies</td>
<td>Designed to ensure that all employees feel they belong as valued members of the organization</td>
</tr>
</tbody>
</table>

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organization. In all other cases, AA is strictly voluntary. The two situations where affirmative action is mandatory are these:

1. **Executive Order 11246.** If the company is a contractor to the federal government and receives more than $10,000 per year, they are required by presidential order (Executive Order 11246) to maintain an affirmative action program. Exemptions from this order include the following: (SHRM D:7)
   - “[A] Government contractor or subcontractor that is a religious corporation, association, educational institution, or society, with respect to the employment of individuals of a particular religion to perform work connected with the carrying on by such corporation, association, educational institution, or society of its activities.”
   - “Facilities of a contractor that are in all respects separate and distinct from activities of the contractor related to the performance of the (federal government) contract.”

2. **Federal court orders for AA programs.** If an organization is presented with a federal court order to create an affirmative action program to correct past discriminatory practices, it must comply. This is usually done only when there is an egregious history of past discriminatory practices in the organization.

**The Office of Federal Contract Compliance Programs (OFCCP)**

As the agency in charge of federal contract compliance, OFCCP monitors and enforces Executive Order (EO) 11246, plus Section 503 of the 1973 Rehabilitation Act, and the 1974 VEVRAA. Both EO 11246 and the Rehab Act require that federal contractors who receive more than a certain dollar value per year in contracts from the federal government provide equal opportunity and take affirmative action toward protected class individuals. In the case of EO 11246, those groups are based on race, color, religion, sex, and national origin. And in the case of the Rehab Act, the designated group is individuals with disabilities.

**Diversity and Inclusion (D&I)**

The terms diversity and inclusion are often used interchangeably, but they are different. Diversity is simply the existence of differences—in HRM, it deals with different types of people in an organization. The most successful companies give employees a sense of belonging. Inclusion is a practice of ensuring that all employees feel they belong as valued members of the organization. An inclusive value system creates a sense of belonging—a feeling of being respected, being valued for who you are, and feeling a level of supportive energy and commitment from others so that everyone can do their best work. D&I is all about creating equal opportunity for everyone.

**D&I Is a Growing Discipline**

Large corporations realize the value in having a manager of D&I, typically under the HR department, with a variety of titles, including D&I managers at Dow, Brown-Forman, Interpublic Group, Comcast, Salesforce.com, and others. Nielsen TV-ratings CEO David Kenny holds the additional title of chief diversity officer. At Dow, Karen Carter is the chief inclusion officer (a top-executive, C-suite-level manager); she works with Dow business leaders to add diversity and inclusion in their strategy, ensuring they understand it is tied to financial success. D&I executives often have a broad mandate, from hiring and communications to even how products are created and sold.
In 2019, 56% of large corporations had no one in charge of D&I, 43% had a D&I manager, and only 1% of S&P 500 companies had a C-level D&I officer. Some 85% of CEOs globally said they saw enhanced performance after investing in D&I programs. Thus, the number of D&I managers and executives is expected to continue to increase.\(^{103}\) We will present the many benefits of D&I after we review diversity groups and demographic diversity. Let’s start by listing types of diversity and then demographic diversity and why it is so important.

**Types of Workforce Diversity**

Recall back in Chapter 3 that the EEOC enforces the laws regarding illegal discrimination based on “race, color, religion, sex (including pregnancy, gender identity, and sexual orientation), national origin, age (40 or older), disability, or genetic information.”\(^{104}\) However, workforce diversity includes all types of diversity because we are different in so many ways, like personalities, intelligence, and skills. But the focus is commonly on gender and race because they have been negatively stereotyped and discriminated against at work. Demographic diversity and public pressure have contributed to the interests of diversity, and therefore, companies are working to meet the needs of these stakeholders in the organization. \(\text{(SHRM J:2)}\) Therefore, organizations are focusing on inclusion so everyone is given equal opportunities.

**Demographic Diversity**

Is D&I really all that important? Yes!\(^{105}\) Promoting D&I creates equal opportunities for all employees, so it is the right thing to do.\(^{106}\) We all know there is diversity in cultures throughout the world. But do you realize there are people from all over the globe living in America? The United States has cultural diversity at home as a country populated by immigrants.

According to the **U.S. Census Bureau**,\(^{107}\) the U.S. population continues to grow slowly, with around 329.5 million people, and it is rapidly diversifying. The white population is decreasing, as there are more deaths than births. The population growth is coming from minorities, and Hispanic people are now the largest minority group. Today, minority births are now the majority. In the global population of 7.643 billion, whites will continue to decrease.\(^{108}\)

By around 2040, less than half of the total U.S. population will be white. By 2060, whites are estimated to be 43% of the population, and 1 in 3 people (33%) will be Hispanic. By 2060, nearly 1 in 5 (20%) of the nation’s total population is projected to be foreign born.\(^{109}\) What does this shift mean to the organization? It means that employee diversity will continue growing and we will have to become better at managing that diversity than we have been in the past. Companies, including **Travelers** and **Airbnb**, say diversity is a business imperative, and they are training employees to be inclusive.\(^{110}\)

People are the most valuable resource, and firms need to place the right people in the right jobs through embracing D&I.\(^{111}\) Diversity an important topic within the workplace, making D&I critical to successful strategy implementation.\(^{112}\) Diversity is going to continue to grow, and the better you can work with people who are different from you (interpersonal skills), the greater are your chances of having a successful business career.\(^{113}\) So embrace it. Develop your global mindset.\(^{114}\) Are you willing to commit to including diverse people in your homogeneous groups?

**Benefits of a Diverse and Inclusive Workforce**

Diversity and inclusion provide benefits, but at the same time, increasing diversity in the workforce also poses one of the most challenging HR and organizational issues of our time.\(^{43}\) So let’s discuss why many organizations value diversity and inclusion and are choosing to promote it.\(^{43}\) We present benefits, followed by discussing the challenges.

**Performance Benefits**

A D&I culture provides companies with a competitive advantage through higher levels of performance. In a study ranking the top- and bottom-20 companies on D&I,
the top performers had higher stock values in five-year and 10-year returns. So diversity helps increase sales, revenues, and profits, creating business opportunities.

**Employee and Customer Benefits**

There is evidence that companies who practice D&I gain tangible benefits from their employees and customers. If employees don’t feel included, they generally will not place a high value on organizational membership and will not be as productive as those who do. Conversely, fostering greater D&I increases employee engagement and improves performance.

Five employee and customer benefits include the following:

1. Cost savings due to lower turnover and absenteeism and increased productivity
2. Increased number of workers who fill the current shortage of skilled employees
3. Winning the competition for diverse talent by being more attractive to women, minority groups, and diverse workforce members
4. Increased number of customers through having diverse employees with cultural sensitivity to a diverse customer base
5. Improving corporate image

Companies are making changes to attract an increasing diversity of customers. CEO John Donahoe says Nike focuses on seeing things through the eyes of the consumer. With the increasing diversity of customers, Progressive Chief HR Officer Lori Niederst says, “This makes constant and concerted attention to diversity and inclusion a business imperative.”

Companies are making D&I changes to attract and retain millennial workers. Michele Parmelee, global chief people and purpose officer at Deloitte, found an estimated 63% of millennials would consider quitting if their employer did not prioritize D&I. In addition to these valuable outcomes, there is evidence that other, less tangible returns accrue to companies that practice inclusion in the broadest sense. For these and other reasons, we will continue to discuss the value of diversity and inclusion as we go through the remainder of this book.

**Creativity and Innovation Benefits**

There is a wealth of evidence that diversity helps teams and organizations perform better in terms of creativity, innovation, revenue, and profits. Creativity is a basic ability to think in unique and different ways and apply those thought processes to existing problems, and innovation is the act of creating useful processes or products based on creative thoughts. Teams perform better when members feel included and feel free to take risks and engage in the fearless give-and-take needed to innovate and solve problems.

Many highly successful companies say having a diverse workforce has helped them create better products and be more innovative, leading to growth in sales and profits. P&G CEO David Taylor says, “A diverse team supported by an inclusive environment that values each individual will outperform a homogenous team every time.” Nike CEO John Donahoe promotes diversity because the data is clear. The most diverse teams are also the most innovative teams, so he gives D&I his time and attention. CEO of GM, Mary Barra, says “A diverse workforce promotes fresh, innovative thinking that translates in a competitive advantage, which in turn translates into winning product for our customers.”

On their website, Volvo states, “We are passionate . . . about discovering diverse perspectives. . . . We boost our performance with better decision making and cutting-edge innovation.” Similarly, Apple states, “At Apple, we’re not all the same. And that’s our greatest strength. . . . Because to create products that serve everyone, we believe in including everyone.”

**Divergent Thinking and Better Decision-Making Benefits**

A diverse group looking at a problem will analyze the problem from different directions and in different ways and will discover more of the aspects of the problem than
Challenges to Diversity and Inclusion

Diversity can have benefits, but it also has costs and challenges. There are several things that can cause diversity to break down the inclusion instead of allowing teams to perform better. We will only discuss three of the major challenges.

The first challenge is conflict. **Conflict** is simply the act of being opposed to another. Conflict occurs in interactions between individuals. There are many reasons for conflict, but it is typically greater when people are significantly different from each other, which means that if we create a more diverse workforce, there’s a greater likelihood for more conflict. Diversity can trigger social categorizations, leading to conflict and, our second challenge ultimately, a decline in information sharing among team members.

However, there are two types of conflict. Conflict of ideas can be beneficial because it can actually lead to creativity and innovations that improve products and processes. Conversely, personal conflicts tend to lead to conflict between people that often hurts relationships and team performance. You learned how to resolve conflicts in Chapter 10. For now, try to use a collaborative problem-solving approach to identify unresolved issues and jointly develop a strategy for tackling your areas of disagreement.

The third challenge is group cohesiveness. **Cohesiveness** is an intent and desire for group members to stick together in their actions. In organizations, we have learned that in order for a work group to become as good as it possibly can be, the group has to become cohesive. The members have to feel accepted as part of the group and interact effectively with others in order for the group to perform at a high level. However, the more diversity there is within the group, the more difficult it is to create the cohesiveness necessary for high performance.

Part of the challenge comes from the notion that people tend to get along better with people in their own group. Do you tend to associate with people of your own age, gender, race/ethnicity, disability/ability, or religion? As a leader, you need to get everyone to work together. So more diverse groups tend to be less cohesive.

Managing Diversity and Inclusion

Managing diversity so we gain the benefits available is one of the most critical jobs today and into the future, as the world becomes more diversified and the white population continues to decline globally. The EU is currently dealing with major diversity issues that the United States will face in the near future.

Although effective management of diversity and inclusion is difficult, here we present initiatives that are being used successfully by major corporations. **Bank of America** sponsored 3,000 diversity events in 2019. **Microsoft** spent $55.4 million a year on diversity initiatives through 2020 and continues to make diversity a priority.

Inclusive Equal Opportunity for All With Top-Down Management Support

A primary HR goal in managing diversity is to create an inclusive, equal opportunity organizational culture (Chapter 2) for all that recognizes the value of each individual. Recall our discussion of the value of inclusion.

Like with ethics, D&I requires top-management support to make meaningful changes. Recall our discussion of CEOs on the importance of inclusion and their support for inclusion. But inclusion must be part of every manager’s job, starting with the CEO and moving down. (SHRM V:1-6)

Research supports that a diverse top-management team (TMT) leads to more innovation, and a diverse middle-management team (MMT) is more effective at...
implementing the innovations. With all managers promoting D&I, employees are more engaged. CEO Lip-Bu Tan says diversity is a top priority at Cadence, where 95% of its 6,500 employees state that Cadence is an inclusive workplace.

Diversity Policies and Practices
As the foundation, HR must develop and initiate D&I policies and practices. KPMG CEO Lynne Doughtie says creating an inclusive and diverse organizational culture (Chapter 2) requires more than words. It requires active strategies, policies, and practices to attract, hire, promote, and retain a diverse workforce.

Companies can’t improve D&I without measuring results, and managers need to be held accountable for results. Procter & Gamble, where women hold 45% of management roles, measures everything, keeps records, and reports diversity results, often called a diversity report or audit. Dow uses the term inclusion report. Some say one of the biggest barriers to improving diversity leadership is that many companies don’t measure—or don’t accurately measure—or disclose the extent of the problem.

Unfortunately, tech companies continue to be white-male dominant, and some claim that public diversity data would expose them to harm from competitors and they therefore keep annual diversity reports confidential. In 2011, CNN asked 20 companies for their diversity statistics, and only three (Dell, Intel, and Ingram Micro) complied. But since then, Apple, Google, HP, and Microsoft have begun publicly releasing their annual EEO-1 diversity reports.

Diversity Recruiting and Promoting
HR should focus on hiring the best candidates, not costs, and recruit and promote minorities to increase and retain minorities in its diverse workforce. It helps to follow standardized hiring processes (Chapter 7). In promoting diversity, be sure to follow all EEO laws (Chapter 3). You need to be careful not to focus too much on diversity and not hire or promote the most qualified person, as happened at GitHub. Hire the right people for the right jobs—fit (Chapter 6).

Recall that opportunity for advancement is frequently the most important factor in selecting and staying on the job. So to be inclusive, you need to provide opportunities for all employees to learn and advance. Also, make sure diverse employees have access to the same job training and other practices at work to have equal opportunities to advance.

You should have high standards and hire and advance the most qualified candidates. Inclusion to engage employees includes giving everyone training and encouragement to advance. But given equal qualifications for the job, the diverse candidate can be given the job to support diversity. Companies are using artificial intelligence (AI) to track workers’ skills to proactively offer them chances for advancement, which decreases turnover.

Records of diverse group hiring and promoting should be kept, and efforts should be made to help these groups succeed in the workplace, again often called a diversity audit. Twitter set targets for minority and women representation within the firm and by type of job.

Diversity Training
There are two ways we will discuss training. First is the need for training and development of minorities to advance. We discussed training in Chapter 7. Men hold 95% of the top jobs at the biggest U.S. companies. Part of the reason for the lack of diversity in promoting at all levels is the fact that there are not enough minorities in the promotion pipeline. To help fill the pipeline, companies need to provide more training and development to minorities to prepare them for advancement. The most profitable companies, including Mastercard and Intuit, are actively cultivating current workers to fill future openings. In addition to traditional training and development programs, mentor programs and networking groups, discussed later, can help fill the pipeline.

HR can also offer diversity training to teach all employees how to get along better with diverse workers through inclusion. People can be trained in avoiding unconscious bias. American Express trains employees on how to identify and break unconscious bias in their decisions and build inclusive teams. But many people and companies don’t
like to talk about gender and race or bias and stereotypes, and that makes it harder for minorities to advance. It helps diverse people to talk about bias and better understand each other by becoming aware of and more empathetic toward people different from themselves. Some people attend diversity training reluctantly and say it was uncomfortable. However, most agree that it does help them to better empathize and work with others. Airbnb took steps to promote inclusive lodging, including requiring employee training. Starbucks closed thousands of stores for an afternoon to conduct antibias training. In addition to or in place of diversity training, some companies encourage employees to socialize (such as office parties, sports teams, clubs, etc.) to get to know each other better and develop relationships of trust and connection.

Mentor Programs

HR can offer mentoring programs, as no one gets to the top alone. Large corporations, including American Express, Sun Microsystems, Intel, and Microsoft offer several internally developed formal mentoring programs for their employees. Mentoring is especially recommended for women and minorities who want to advance to top-level positions because it can help them break into the “good old boy” networks that often make the selections for these jobs. LinkedIn offers a service connecting mentors and mentees for career advice sessions.

Network Diversity Groups

HR can offer network diversity groups to promote equality. They have employees throughout the organization from a diverse group whose members share information about how to succeed in the company and how to help the company succeed, including Cadence. American Express has been using these groups for over 20 years. Frito-Lay has a Latino employee network that provides management with very valuable feedback on marketing products to the Latino community.

All these D&I initiatives take time and money. But they have been shown to be HR investments rather than expenses (productivity centers versus cost centers; see Chapter 1) because they can increase effectiveness and efficiency and, subsequently, increase revenue and profits. Unfortunately, the HR department always has to compete for limited resources. So the better you can measure and calculate a return on investment (ROI; see Chapter 2), the greater funding HR will get.

Being Personally Inclusive

To be inclusive, we all need to empathize with everyone—put ourselves in their shoes and try to understand where they are coming from and accept them for who they are rather than reject them or try to make them into who we want them to be—that is, just like us. One thing we should realize is that “our way” of interacting with others (or doing things) is not the only one, right style (or way of doing things). Are you truly open to letting people who are very different from you at work be who they are? Recall that being happy is about relationships, and firms are placing a top priority on recruiting employees who can work with and manage a diverse group of employees. Let’s move from tolerating differences to being diversity blind and consciously accepting others, to reaching out to include others who are different from us.

15.6 CORPORATE SOCIAL RESPONSIBILITY (CSR)

LO 15.6 Define corporate social responsibility (CSR) and briefly discuss the “business case” for CSR.

Recall that in the introduction to this chapter, we stated that corporate social responsibility (CSR) is an umbrella term for exploring the responsibilities of business and its role in society. CSR includes being ethical and promoting D&I and sustainability, which we discuss in a separate section after CSR. Also, CSR is often housed in the HR department but is managed by experts in the CSR field. Let’s review this concept and then take a look at some of the stakeholders that are affected by CSR.
CSR Defined
What is CSR, and what do managers need to know about it? Being socially responsible means going beyond legal and economic obligations to do the right things by acting in ways that benefit society.193 The concept is not new and is based on the belief that “companies have some responsibilities to society beyond that of making profits for the shareholders.”194 CSR is about doing good and doing no harm195 and relationships with stakeholders.196 When Google started, it had the motto, “Don’t be evil.”197 So corporate social responsibility is the concept that organizations have a duty to all societal stakeholders to operate in a manner that takes each of their needs into account. In other words, companies need to look at their effects on society and all corporate stakeholders, not just shareholders.

The Business Case for CSR
A “business case” is simply a justification for an organizational action. In other words, does it pay to be socially responsible? The answer is yes. There is debate on the question of how CSR affects corporate financial and economic performance.198 With so many factors affecting profits, how do you measure only CSR contribution to profits? But various studies have acknowledged the significance of CSR for enhancing employee engagement and organizational performance.199 If CSR didn’t benefit the company in some way (improved competitive position and enhanced reputation), why would virtually all U.S. large public corporations have CSR programs?200 Several companies with reputations for being SR have much larger profits than those that have poor reputations,201 including Starbucks and Costco.202 Companies considered to be highly socially responsible by Forbes, “The Just 100: America’s Best Corporate Citizens,” (including American Express, F5 Networks, Ford, Peak Performer, PepsiCo, Pioneer Natural Resources, Southwest Airlines, and SVB Financial Group) had an average return of 13.6%, compared to 9.9% for those that had lower ratings of CSR.203 With a choice of two products of similar price and quality, 80% of surveyed customers said they are willing to buy the more sustainable option.204

Negative Effects of Irresponsible CSR
Being socially irresponsible has negative consequences, as it gives the company a negative reputation that leads to more difficulty in attracting customers, investors, and employees, and it can lead to costly lawsuits. Money can be made again, but a negative reputation can take years to improve, and a good reputation may be lost forever.205 (SHRM V:1-c)

The lack of CSR has been in the news constantly for the past several years.206 Many of the business problems that have occurred—from the early-2000s financial crisis to Wells Fargo, to an international bribery scandal at Walmart207 to Purdue Pharma’s continued attempts to push physicians to prescribe large amounts of the opioid OxyContin to patients208—have been caused, at least in part, by a lack of CSR.

Stakeholder Influence on CSR
If a company doesn’t believe being socially irresponsible has negative effects and the cost of having CSR outweighs the benefits, another reason is society in general and specific stakeholders demand CSR. In the past, there was debate over these questions, “Should businesses be socially responsible,” and “Why would corporations behave in socially responsible ways?”209 However, today, people expect business to improve the general welfare of society.210 Major corporations are expected to help solve the world’s most challenging problems,211 and they have to be active in CSR because stakeholders pressure businesses to be responsible.212 So if you run a business, you can’t just do whatever you want to do. Like it or not, businesses have to be socially responsible.

Stakeholders and CSR
So the business case for CSR is based on the ability of the organization to help or harm various stakeholder groups and the ability of all stakeholder groups to help or harm
the company. Let’s start by discussing the social-contract model, then present an overview of the major stakeholders, followed by how some of the major stakeholders influence a company to be socially responsible.

**Social-Contract Model**

A concept called the social-contract model, which discusses the need for the company to take society into account while doing business, has been around for a number of years now.²¹³ This contract says that all organizations have an implied contract with society as a whole. A productive organization should enhance the welfare of and minimize the drawbacks to employees, consumers, and other stakeholders in any society in which the organization operates. A social contract should also avoid violating the rights of individuals in the society in which it operates. We discussed employee rights in Chapter 9, and we can extend those rights and other societal rights to all organizational stakeholders.

Recall, too, that when we discussed those employee rights, we also said the organization has a contrasting obligation to allow and protect those rights. It is the same with other stakeholder members of the society in which the organization operates. The organization has a specific duty²¹⁴

1. not to actively deprive persons of their rights;
2. to help protect people from deprivation of their basic set of rights; and
3. to aid those who are deprived.

So the organization has to take the interests of all stakeholders into account.

Finally, for those of you who are considering whether or not all of this CSR is really necessary, remember that it is “hard to hide” now with the immediate availability of mountains of information. If you try to bury information inside the organization, it is almost certainly going to get out because of the power of the Web and its ability to connect people who may be interested in what your company is doing. Again, we can note the Facebook privacy breaches and Johnson & Johnson’s harmful products, both of which were at least partially revealed in Web posts at first. Think about how rapidly Twitter forwards information to users and how comprehensive LinkedIn is when it covers company issues. So if you think the information won’t get out, you may want to think again.

**Overview of Stakeholders**

Let’s conduct a quick overview of the major stakeholders.²¹⁵ Businesses must provide employees with safe working conditions and with adequate pay and benefits. Companies must provide safe products and services to customers. For society, the company should improve the quality of life—or at least not destroy the environment. The company must compete fairly with competitors and work with suppliers in a cooperative manner. It must abide by the laws and regulations of government. At the same time, the company must provide shareholders with a reasonable profit. Now, let’s get into more details of four of the major stakeholders and the need to balance their interests. We will discuss the environment in the sustainability section.

**Stockholders**

Stockholders, as owners of the company, take a risk of losing their money if the business fails, so they deserve a return on their investment through increased stock prices. Therefore, they do pressure management to be profitable and increase the value of the company stock. Pressure to maintain profits in an increasingly uncertain business environment is driving executives to seek competitive advantages.²¹⁶ But if we were to look only at shareholders, the business case would always be based on whether or not an action made the shareholders wealthier. However, we cannot ignore other stakeholders—especially in today’s business world, where other stakeholders can create very difficult situations for the company.
Employees

Employees are the most valuable organizational resource, and how the firm treats its employees is related to its performance. Many employee stakeholder subgroups are also beginning to receive much more attention than has historically been the case. Among these groups are the following:

- Gender and minority employees. We already discussed the need for being socially responsible for diversity and inclusion in the last section.
- Women in management and the executive suite encounter the glass ceiling. The glass ceiling is an invisible barrier to advancement in business to women as well as minority employees. The truth is that women still only fill about 19% of the board seats at Fortune 500 public companies and are only 6.4% of CEOs in those same firms, despite the fact that more than 50% of bachelor's degrees in the United States are held by women. (SHRM J:6)
- Older workers. According to the U.S. Bureau of Labor Statistics, the number of workers over the age of 75 has increased by more than 75% in the last 20 years and is expected to increase by more than 86% between 2014 and 2024. (SHRM J:6)
- Lesbian/gay/bisexual/transgender (LGBT+). Managers should expect that the law concerning these employee groups will continue to change over the next few years, including the possibility that a new federal law may be passed concerning nondiscrimination against individuals because of sexual orientation or gender identity. (SHRM J:6)

Government

In addition to being good public practice, CSR is also being codified more often in law in the United States and in other countries. There are a number of corporate compliance laws written by state and federal government stakeholders, many of which we have already discussed—the Dodd-Frank Wall Street Reform and Consumer Protection Act (Chapter 12), the Sarbanes-Oxley Act (Chapter 10), the OSH Act (Chapter 14), the Fair Labor Standards Act (Chapter 11), and the U.S. Foreign Corrupt Practices Act (earlier in this chapter). You will have to become familiar with each of the major compliance laws as well as those other compliance regulations in your state or country as you begin your career as a manager.

Government stakeholders have limited the ability of companies to merge (for example, the merger between Aetna and Humana insurance companies) or to spin off parts of the company if the government thought that it would cause competition problems. Under a settlement reached with the U.S. Federal Trade Commission, TikTok, which is owned by Chinese conglomerate Byte-Dance, had to take offline all videos made by children under 13, but it struggles to keep the kids off its app. Of the 10-year-old girls with smartphones in the U.S., about 70% used TikTok in 2019. (SHRM J:6)

Activist

They are people and organizations that advocate for a cause. Increased societal pressure and specific stakeholder influence over firm CSR has contributed to companies figuring out how to meet the needs of these stakeholders. For instance, consumer stakeholders have pressured companies to stop using sweatshop labor in their manufacturing, such as at Nike contractors. Stockholder activists have pressured corporations to divest of some business units. During the COVID-19 pandemic, individuals, groups, and community (as well government) stakeholders pressed companies to change the way they operated, when they were open, and even what the companies made in their factories.

Balancing Stakeholder Interest

Each stakeholder group has different—and sometimes competing—interests, but the organization must balance these social responsibilities among all of the groups. If we help shareholders make more money to the detriment of society, government stakeholders will step in and sanction the company. If we help customers by sourcing items from questionable suppliers, the community may get angry with us and put pressure...
on customers to stop doing business with us—boycott. Each stakeholder group has to be balanced against the others and managed for maximum engagement with the organization. Every group has to be thought of in a modern company, much more so than ever in history.

**Businesses That Focus on CSR and CSR Reporting**

For some businesses, focusing on CSR is embedded into their culture and mission.

**Social Entrepreneurs and Hybrid Organizations**

There is growth in the number of social entrepreneurs who combine their concern for social issues with their desire for financial rewards. Social entrepreneurs create social enterprises or hybrid organizations. Hybrid organizations pursue a social mission and sustain their operation of commercial activities through work integration social enterprises (WISEs). The dual social and profit mission drives WISE social performance.

The late actor Paul Newman started Newman’s Own to sell products and give all the after-tax profits to charities. Blake Mycoskie founded TOMS shoes at age 29 to make money and help solve a social problem of children having no shoes to wear, which results in blisters, sores, and infections. His business model is, “With every pair you purchase, TOMS will give a pair of new shoes to a child in need. One for One.” He wrote *Start Something That Matters* to guide others in helping society. He wrote *Start Something That Matters* to guide others in helping society.226 With a social mission, TOMS received lots of free publicity, and sales have increased, resulting in Mycoskie making lots of money for being SR.

**The B Corp**

“Certified B Corporations, B Corps (benefits corporation) are a new kind of business that balances purpose and profit. They are legally required to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment. This is a community of leaders, driving a global movement of people using business as a force for good.” B Corp is a title given to companies that meet certain certification requirements. There are around 3,300 certified B Corps in 150 industries from 71 countries with one goal. Ben & Jerry’s, Cabot, Danone, and New Belgium Brewing are B Corps. For information on certification requirements, visit www.bcorporation.net.

**CSR Reporting**

Virtually all the Fortune 500 companies have formal CSR programs. Corporations are even measuring and assessing how well they meet their SR goals. The measures are commonly called corporate social performance (CSP). Visit your favorite large corporation’s website, and you will most likely find a link stating how the firm engages in CSR; it is even included in most of the firm’s annual reports, often called a social audit, as it measures social behavior.

**15.7 LEVELS OF CORPORATE SOCIAL RESPONSIBILITY**

> **LO 15.7** Identify and briefly discuss the three levels of CSR available to the organization.

Clearly, in today’s society, the question is not whether business should be socially responsible. Instead, the question is, *At what level of CSR should the business operate?*
Businesses do vary greatly in their social-responsibility activities, based on the overall level of CSR at which they decide to operate.\(^{230}\) Let’s start this section by discussing the stakeholder mission.

**Stakeholder Mission**

Currently, almost every major corporation has explicitly adopted nonfinancial CSR goals as part of their mission, and diversity has become particularly important because of its benefits to both business and society.\(^{231}\) In 2019, the Business Roundtable, 181 CEOs of major corporations, issued a statement saying that they “share a fundamental commitment to all of our stakeholders.” Members embraced a model of capitalism that takes into account the interest of all corporate stakeholders—and therefore renounced the idea that stockholders should always come first.\(^{232}\)

The late management scholar, Peter Drucker, defined the gauges of a company’s effectiveness as “doing the right things well.” The Drucker Institute and The Wall Street Journal teamed up and conducted a study comparing company performance in five areas: customer satisfaction, employee engagement and development, innovation, social responsibility, and financial strength. The overall top performance in these five areas were Apple, Amazon, and Accenture. However, on social responsibility alone, the ranking was Cisco Systems, Accenture, and IBM.\(^{233}\)

**Three Levels of CSR**

Managers can choose to operate the business at one of three levels of CSR. The levels of CSR are *legal*, *ethical*, or *benevolent*. However, a firm can be between levels or be on different levels for different issues. See Exhibit 15.4 for an illustration of the three levels.

**Legal CSR**

It focuses on maximizing profits while obeying the law; it focuses on increasing sales and cutting costs to maximize returns to stockholders. In dealings with market stakeholders, these firms meet all of their legal responsibilities, such as fulfilling contract obligations and providing legally safe products, while honoring guarantees and warranties. They do what it takes to beat the competition legally. In dealing with nonmarket stakeholders (society and government), they obey all the laws and regulations, such as not polluting more than the legal limits and meeting all OSHA standards. Some firms have been criticized for their behavior at this legal level. Juul and others sell vaping supplies that are not illegal, but some question the ethics of a business that causes serious health problems.

**Ethical CSR**

It focuses on profitability and doing what is right, just, and fair. Providing ethical leadership and avoiding questionable practices mean doing more than is required
in dealing with market stakeholders, such as treating employees right and paying them fair wages, providing safer products, not squeezing suppliers, and competing to win business ethically. These companies meet reasonable societal expectations and exceed government laws and regulations to be just and fair to stakeholders. Many companies, including Costco and Dick’s Sporting Goods, have return policies that allow customers to get refunds or exchanges without good reason, exceeding legal requirements.

Philanthropic/Benevolent CSR

It focuses on profitability and helping society through philanthropy. This highest level of CSR is also called good corporate citizenship. Benevolent firms are philanthropic, giving gifts of money or other resources to charitable causes. Employees are expected, encouraged, and rewarded for being active volunteers in the community, often on company time.

Apple, under CEO Steve Jobs, operated at the ethical level, as Jobs did not believe in corporate philanthropy. However, under its current CEO, Tim Cook, Apple now operates at the benevolent level. For example, Cook implemented a matching program to supplement employee donations to nonprofits that Jobs long resisted.234 (SHRM V:1)

In addition to giving corporate money, many rich entrepreneurs set up foundations and give their own money (e.g., Carnegie Foundation, Ford Foundation, and Bill & Melinda Gates Foundation). Billionaire Bill Gates (cofounder of Microsoft) pledged to give away 95% of his family’s wealth, only giving a fraction—a mere few million—to his three children. Warren Buffett teamed up with the Gates family, giving billions to the foundation. So far the foundation has given away more than $50 billion.235 During the pandemic, Gates said his foundation will spend billions of dollars to fund the construction of factories for the most promising efforts to develop a coronavirus vaccine.236 Facebook founder Mark Zuckerberg plans to give away 99% of his Facebook stock.237 However, Mark and his wife, Priscilla Chang, created a limited-liability company rather than a foundation, which may become the new philanthropic model.238

15.4 APPLYING THE CONCEPT

Place the letter of the level of CSR on the line next to the statement that illustrates it.

a. legal

b. ethical

c. philanthropic/benevolent

20. With the pandemic, we had to close our business. But we gave our employees two weeks’ pay, even though they didn’t work.

21. If you accept the job, we pay the state federal minimum wage, and you can start on Monday.

22. Sorry, but I’m not willing to buy your sustainability device and wait five years for it to pay for itself in energy savings.

23. OK. Tony’s Pizza will sponsor your sports team and pay for the uniforms.

24. We are only a small business, but we will pledge $1,000 to the United Way, which helps so many nonprofit organizations.

25. No, Joe. Even though they are true statements, do not put negative reviews of our competitors on the Internet.

26. During the pandemic, children could not go to school, so HP gave New York City schools 5,000 laptop computers so kids could learn online.
Approaches to CSR

Let’s be clear about the difference between an overall and a situational approach to CSR. Top corporate managers decide on the firm’s overall commitment, or level, of CSR. The board of directors and managers often make corporate policies to guide employee actions in dealing with stakeholders, and some have CSR mission statements. Some companies even have separate departments and executive titles for CSR.

Although firms have an overall guiding commitment to CSR, the level of CSR can and does vary based on individual issues. CSR has been called enlightened self-interest because firms will be motivated to engage in CSR activities when the benefits outweigh the costs, as there is a link between CSR and financial performance.239 However, determining the appropriate level of CSR to meet the business’s and stakeholders’ self-interests is not quick and easy. Each issue requires analysis and risk–reward considerations and determining how stakeholder relations affect the overall health of the corporation.240 (SHRM V:1-f) (SHRM V:5)

Where You Stand Depends on Where You Sit

You can see from our discussion that ethics and CSR are not concrete subjects—especially when you look at what is acceptable in the eyes of each stakeholder group that is looking out for its own best interest (where they sit). It is hard to balance conflicting interest. We should be aware that profits of the corporation do affect its level of CSR and that we need to be ethical in decision making that affects the various stakeholders.

Profits

Some say the reason that the Roundtable, representing major U.S. corporations, is talking up stakeholder capitalism to fend off growing criticism of its place in society. Shareholder return will continue to be the number-one concern. Corporations are paying attention to CSR to stakeholders because it is an essential part of making money for shareholders in the long run. The Roundtable vision doesn’t involve shareholders giving up anything to benefit other stakeholders unless it increases brand, reputation, or productivity.241

Let’s face the reality that the capitalist economic model has made the United States the number-one global economy. Capitalism is based on for-profit business. Without profits, you can’t stay in business, and bankruptcy hurts stakeholders. How can a business be socially responsive and pay employees well and be socially responsible to other stakeholders without profits? You can only be at the philanthropic/benevolent level of CSR if you are profitable. The more profits Newman’s Own makes, the more it can give away.

Besides, who owns the major corporations? It’s not the CEOs or just the top income earners. Millions have retirement accounts, including 401(k) plans, that invest in stocks. Do you own any stock personally and/or in a retirement account? When the price of the stock goes up, all stockholders benefit. Most likely, the greater the business profits, the higher the stock prices, and the larger your retirement account will be. We will discuss retirement accounts as a CSR benefit in Chapter 13. So if you sit with the stockholders, do you stand with them to be profitable?

Ethics

It is always a balancing act to make good decisions concerning the ethical path of the organization. However, we have to keep all of these groups in mind as we make managerial decisions if we want to continue in business for very long. Nobody said being a manager was easy. If it were, people would not be paid so well to be managers. Remember: If you don’t think about making the ethical decision using an ethical guide before a situation arises, you will probably make the expedient decision (the decision that does you the least personal harm) and not the ethical decision that is socially responsible to stakeholders.
15.8 SUSTAINABILITY

Briefly describe the concept of sustainability in a business context.

Recall that sustainability is part of CSR. In this section, let’s answer the questions, What is sustainability, and is it important? Then, we’ll discuss sustainability training and end by discussing sustainable organizations.

Defining Sustainability

Sustainability involves meeting the needs of the current generation without compromising the ability of future generations to meet their needs. It is the process of assessing how to design products that will take advantage of the current environmental situation and enhancing how well a company’s products and processes perform with renewable resources.

Sustainability Is Important

Including sustainability in managing the business is being socially responsible. Today, the world is confronting a colossal unmet need unlike anything in the past, as the warming of our planet is causing dramatic changes to the climate to the point of being called a crisis. A recent World Economic Forum report says that two thirds of the world population could be living in water-stressed countries by 2025 if current consumption patterns continue. One study projects average global incomes will fall 23% by the end of the century due to climate change. According to a global scientific consensus, the single largest threat to the health of our planet in the decades to come is climate change. As our resources diminish with a growing global population expected to reach 10 billion by 2050, can we generate food, clothing, housing, energy, and transportation to meet our global needs? Clearly, we need to reduce waste and reduce corporate carbon footprints.

So yes, sustainability is important. Sustainability is now a business buzzword, and based on the gravity of environmental problems, it is an important topic for all countries. Sustainability is so important that it has become a strategic priority for many companies worldwide, as stakeholders increasingly pressure business to engage in sustainable business practices. Successful companies are implementing a sustainability strategy alongside an existing mainstream competitive strategy (Chapter 2).

What does business need to do in order to be considered sustainable? Organizations use up resources in the course of their operations. Any resource that is used must be replenished, or it disappears forever. In years past, it was thought that resources were so abundant that we could never use them up, but we now know better. There are already shortages of some critical items necessary for the survival of humans and other species over the long term—shortages of good drinking water in some areas, for instance.

Sustainability Can Pay

Many corporations are addressing sustainability changes, and an important part of the reason is that they can pay to do so. The Sustainability Consortium (TSC) is leading the transformation of consumer goods to deliver more sustainable products. The use of renewable energy is on the increase, and renewable power capacity was expected to increase by 50% between 2019 and 2024. Walmart is saving billions in costs by reducing its environmental footprint from packaging to supply chain and distribution. HP is using recycled plastic in its printers, supplies, and PCs and has reached zero deforestation with its branded paper. HP is also improving its packaging by transitioning from materials like single-use plastics to more sustainable materials like molded reusable pulp. (SHRM V:6-b) Corporations are accepting the environment as an important external stakeholder.

Successful sustainability practices are proof that businesses don’t have to
choose between doing well and doing good. HP sustainable impact programs drove more than $900 million in new revenue in 2018, and HP continues to expand its sustainability strategy. HP innovations include the world’s first PC made with ocean-bound plastics, the first sustainable home printing systems, plus 3-D printing and digital manufacturing to accelerate a more sustainable industrial revolution. HP says, “It’s not only the right thing to do, our customers prefer it, and it’s good for business.”

Some people refer to the triple bottom line: concern for profit, society, and the environment.

There are also many businesses that are making a profit by creating new products and services that help businesses and government implement sustainability practices to save the companies money and increase revenues.

**HR and Organizational Sustainability**

Organizations have to practice sustainability in today’s business environment. We cannot afford to waste resources that are difficult to replace. Recall that CSR and sustainability often come under the HR department but are managed by experts in this field. Students are flocking to sustainability-focused MBAs to compete for a relatively small number of jobs in this new developing field.

**Sustainability Practices and Green Companies**

Sustainability issues influence activities in the business world. A green company acts in a way that minimizes damage to the environment. With the current worldwide environmental problems, many new ventures have been created in green management. Social entrepreneurs are taking advantage of sustainability. For example, Bob Shallenberger and John Cavanaugh launched Highland Homes in St. Louis to build environmentally friendly condos and houses.

Large corporations are engaging in sustainability practices in a big way. Many companies, including Walmart, Novartis, and PayPal, are distributing annual sustainability reports.

However, many companies are now moving beyond having a single person in charge of sustainability efforts toward having many touch points for sustainability reviews and practices in the company. For instance, EMC, an information technology company, “requires every software and hardware product to undergo an energy-efficiency review before launch.”

Dassault Systèmes, Workday, Accenture, and Google parent Alphabet now have dedicated sustainability programs. Starbucks encourages sustainable farming for its coffee growers. Amazon and Walmart have both reduced packaging and work to make sure all packaging is made from recycled materials that can be recycled again. Amazon’s headquarters was also built to have eco-friendly buildings with interiors and exteriors certified by LEED (Leadership in Energy and Environmental Design). Pratt Industries makes corrugated boxes using 100%-recycled paper, saving an estimated 50,000 trees a day, with an estimated company value of $3.4 billion. With the trend toward online shopping and boxed delivery, Pratt is making an environmental impact.

**The Need for Management Commitment**

Sustainable practices require a strong commitment by companies in order to create the necessary follow-through at all levels of the company. Sustainability management is important. As with any other ethical issue, we have to get the most senior level of management to commit to sustainability and walk the talk. The process of sustainable design requires that everyone think about what resources are being used in every action the company takes.
Sustainability goals and objectives tied to the company strategy are an essential part of the efforts to “green the company,” and HR must play its part in these efforts. Performance evaluations of all managers should contain items relating to their sustainability efforts, and in many cases, part of their incentive compensation may be tied to those efforts. HR may even decide to source some employees locally in some cases, instead of from a wider recruiting pool, in order to minimize impact on the environment. While this is only possible in some limited circumstances, management—including HR management—needs to think about every way in which they can minimize the company’s ecological impact. It takes tenacity to make any program take hold in an organization, and the effort to become sustainable is no different than with any other program. HR managers also need to implement sustainability training to inform and guide all employees in their sustainability efforts.

Sustainability Training

Look back just a few years, and you would probably find that there were very few sustainability training programs in major corporations. The first U.S. CSO was appointed in 2004 at DuPont. Fortunately for all of us, this is no longer the case. While a very small number of organizations have been concerned with social responsibility and sustainability for many years (for example, Ben & Jerry’s ice cream, founded in 1978), most larger businesses didn’t become concerned with sustainability programs until about the turn of the 21st century. However, the concept of sustainability is increasingly viewed as providing value to “the so called triple bottom line of economic, social, and environmental performance.” Organizations with sustainability programs tend to gain the trust of their customers and surrounding communities. By doing so, these organizations may gain great competitive advantage over their rivals who are less oriented to the sustainability of the community and the environment. Because a sustainable organization embodies the values of its customers and community, those customers and community members become willing to provide reciprocal concern for the organization. This can create significant loyalty to the organization and its brands.

However, as we just noted, it can be extremely difficult for organizations to embed the concept of social responsibility and sustainability throughout the firm. A sustainability mindset must be incorporated into the corporate culture, and that can only typically happen from the top of the organization down. So any organizational sustainability training program must begin at the top and change the culture of the executives and managers. Strong organizational cultures that have sustainability as one of their core concepts can begin to create a collective commitment to social responsibility and sustainability within the entire workforce. But how do corporations disseminate this culture of sustainability down into the employee ranks?

Certainly, training that involves identification of the concept of sustainability and how the organization can affect its environment plays a large part in disseminating this information. In addition, the organization may choose to provide all employees with information in the company code of conduct or code of ethics that identifies sustainability as one of the core principles of the firm.

In conjunction with the training and code of conduct, the organization must measure the impact of their sustainability programs to allow modifications to those programs, if necessary. Changes in company policies and procedures, as well as organizational structure, may also assist in improving sustainability within the organization. Again though, training on the changes in policies, procedures, and structure must occur in order to modify those employees’ behaviors.

Several challenges have been identified to teaching employees about sustainability issues. The first challenge concerns organizational resources. All organizations have limited resources and, as a result, must make choices concerning which stakeholder issues to address. Overcoming resistance to addressing environmental issues is one of the main challenges to training for sustainability.

Second, raising awareness of sustainability issues may engender optimism concerning the company’s ability to “solve the problem.” Organizations conducting sustainability training must ensure that the employees understand that there are limits to what the firm can accomplish on its own.
Third, solutions to some sustainability problems may lie beyond the knowledge and skills of the organization and its members. If the knowledge and skills necessary to solve a problem involve bringing in personnel from outside the firm, the organization may revert to the first challenge and claim that limited resources prevent it from resolving the issue.

The fourth issue concerns employee willingness to learn and commit to change actions to improve organizational sustainability. At this point, the change in culture at the top of the organization can assist in pushing culture change at lower levels. If successful, the culture change that values sustainability will, over time, lower employees’ levels of resistance to change.

So, as you can see from these challenges, organizational training must provide information on both the concept of sustainability and the impact of the organization on the sustainability of its environment, as well as provide training to modify the organizational culture to place greater value on organizational social responsibility and environmental sustainability. If the organization succeeds in these training efforts, corporate sustainability efforts will be likely to significantly improve over time.

**The Sustainable Organization**

There is evidence that more than three fourths of customers are concerned with sustainability and that more of them today are willing to avoid doing business with companies who do not pay attention to their social responsibility and sustainability. According to a *New York University Stern Center for Sustainable Business* study, “Products marketed as sustainable are driving product and category growth:

- Across all categories, account for 16.6% share of market ($), up from 14.3% in 2013
- Overall, delivered 50.1% packaged goods market growth (2013–2018) despite representing only 16.6% of the category
- Grew 5.6x faster than products not marketed as sustainable (5-yr CAGR)”

So what will our modern, sustainable company look like? What do organizational leaders need to know? Unfortunately, there is no single answer to this question. However, we do know some of the things that companies need to think about in their quest to become more sustainable.

*MIT Sloan Management Review* and the *Boston Consulting Group* research business sustainability on an annual basis. According to this research, 75% of senior executives in mainstream investment firms believe sustainability performance is materially important to their investment decisions. Seventy-four percent of surveyed investors also said that corporate sustainability performance matters. Other articles note that “the concept of sustainability is moving from ‘nice to have’ to ‘need to have’” and that “there is an entire ecosystem of stakeholders who care. Governments care. Investors care. Employees care.” Evidence shows that companies are going to have to become more transparent in their efforts to create sustainable products because social media, and especially web-based social media, is going to cause those companies to be held more responsible and accountable for their decisions that affect the environment.

Leading companies are already starting to put their sustainability efforts out in full view of their customers, as well as their detractors, to show what they are doing. In some cases, they are even asking, “What else can we do?” *Patagonia* is doing this through “The Footprint Chronicles,” which examine Patagonia’s habits as a company. Sustainability is evident in their mission statement, which says, “Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.” And 25 global food and beverage companies have launched an initiative called FReSH—the Food Reform for Sustainability and Health program. According to *Food Business News*, “The program seeks to accelerate change in global food systems, ensuring healthy diets for all with food that is produced responsibly within planetary boundaries.” Many other companies around the world have similar initiatives.

Companies in every industry are beginning to be affected by the issue of sustainable supplies, along with the sustainability of their own products and/or services. The need to act is not only created because of the ability of the Internet to make business
practices transparent. The need to act is driven by business necessity. If we do nothing, supplies in many global industries will eventually run out, and we will have no ability to recover them. The fact is, the earlier companies decide to take action, the less severe the operational changes and adaptations will need to be.

Where can you go for more information? There are many good sources for data and information on corporate environmental impact and sustainability. Exhibit 15.5 provides you with information on some of the major sites hosting this information.

**EXHIBIT 15.5**

Internet Resources for Corporate Sustainability

<table>
<thead>
<tr>
<th>Resource Name</th>
<th>URL</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Organization for Standardization (ISO)</td>
<td><a href="https://www.iso.org/home.html">https://www.iso.org/home.html</a></td>
<td>The ISO 14000 series of standards address environmental management in organizations, providing “practical tools for companies... looking to identify and control their environmental impact.”</td>
</tr>
<tr>
<td>International Institute for Sustainable Development (IISD)</td>
<td><a href="https://iisd.org">https://iisd.org</a></td>
<td>The IISD champions sustainability development around the world through innovation, partnerships, research, and communications.</td>
</tr>
<tr>
<td>United Nations Global Compact</td>
<td><a href="https://www.unglobalcompact.org">https://www.unglobalcompact.org</a></td>
<td>Provides “supply chain sustainability” information based on 10 principles that drive the Global Compact efforts.</td>
</tr>
<tr>
<td>International Organization for Sustainable Development (IOSD)</td>
<td><a href="http://www.iosd.org">http://www.iosd.org</a></td>
<td>A United Nations registered site, IOSD provides a number of white papers on sustainability issues around the world.</td>
</tr>
<tr>
<td>World Economic Forum (WEF)</td>
<td><a href="https://www.weforum.org">https://www.weforum.org</a></td>
<td>“The World Economic Forum is an international institution committed to improving the state of the world through public-private cooperation.” They provide sustainability information on everything from climate to food insecurity at <a href="http://www.weforum.org/issues/sustainability/">http://www.weforum.org/issues/sustainability/</a>.</td>
</tr>
<tr>
<td>National Association of Environmental Managers (NAEM)</td>
<td><a href="https://www.naem.org">https://www.naem.org</a></td>
<td>NAEM is a membership organization that focuses on environmental health and safety, including sustainability as part of its environmental health mission.</td>
</tr>
<tr>
<td>Corporate Social Responsibility Newswire (CSRwire)</td>
<td><a href="https://www.csrwire.com">https://www.csrwire.com</a></td>
<td>CSR Wire is a newswire service that provides “the latest news, views and reports in corporate social responsibility (CSR) and sustainability.” This is a very good site that gathers news and information on CSR and sustainability issues.</td>
</tr>
<tr>
<td>The Sustainability Consortium (TSC)</td>
<td><a href="https://www.sustainabilityconsortium.org">https://www.sustainabilityconsortium.org</a></td>
<td>TSC is a global organization transforming the consumer goods industry to deliver more sustainable consumer products. TSC is primarily a consulting firm that offers tools to work with for companies to become more sustainable.</td>
</tr>
</tbody>
</table>

There Is a Long Way to Go to Become a Sustainable World. Although we have presented a very positive overview of sustainability, the reality is that many countries have very few sustainability initiatives, and some heavily pollute the environment to save money. Even in the U.S., companies are not yet doing what they should in terms of sustainable business practices. Some people and businesses make no effort to be sustainable and freely pollute; some don’t even separate their trash from their recyclable paper and plastic.
Recall the importance of profits. Many businesses will only implement sustainability initiatives that reduce cost or increase revenues, and they do not focus on finding ways to be sustainable, even though it can pay to do so. Part of the problem is that corporations have not figured out the qualities needed for sustainability managers, and they are not hiring many of them. So if you want a job in sustainability, you should focus on your critical skills recruiters are looking for in all candidates, and you need to convince them that if they hire you, you can implement sustainability initiatives that will reduce cost or increase revenues.278

Also, some companies claim to have sustainability policies but actually do little to implement sustainability initiatives. These companies have a hidden agenda of claiming to be sustainable only to simply please external stakeholders to have a good corporate image.279

Now that you have some working knowledge of ethics, D&I, CSR, and sustainability and where to find more information, let’s move on to this chapter’s trends and issues.

15.9 TRENDS AND ISSUES IN HRM

**LO 15.9** Explain strategies to recruit and hire people who match the demographics of the community the business serves and why it is ethical to practice diverse hiring.

For this chapter’s trends and issues, we are going to take a look at the opportunity to increase diversity through nontraditional hiring, followed by a look at the organization’s ethical obligations to diverse populations.

**Nontraditional Hiring**

We have a broken market for young minority talent who are needed in the workforce but are underrepresented because employers aren’t effectively recruiting them. Many diverse, talented individuals in various minority groups and protected classes don’t know about opportunities or how to apply for good jobs with potential career advancement. They often have limited resources to pursue technical training and college degrees. They may end up in fast food or retailing, in other dead-end jobs, or unemployed. However, some leading companies, including Workday and Perkins Cole, are actively recruiting nontraditional talent.280

What should a company that wants to make their employee group match the customers they serve do? A good place to recruit these individuals is in an educational institution, especially high schools with many minorities (often majorities in the school system) in cities with low socioeconomic students. Administrators, guidance counselors, and teachers can often recommend students with potential to fill your job openings. The internship model tends to work well. You can usually train these new hires part-time and during summers to assess their potential, so they are ready for full-time positions when they graduate. One example of a company putting these tactics to use is Massachusetts Mutual insurance company in Springfield. It has cooperative programs with the high schools in Springfield, including career awareness programs and internships, and they offer higher-education scholarships to qualified students.

Companies will generally have to modify their recruiting practices to reach some of the really capable, diverse individuals that can help them attract new customers—and more of those capable diverse applicants! You have to attract any good applicant pool by using the media to which they pay attention—Twitter, Instagram, Snapchat, WhatsApp, Facebook, and others. All it takes is a little bit of thinking outside the box.

**Ethical Obligations to Diverse (Employee?) Groups**

Managing the diversity of employees—as well as the others associated with the company and its business: gig workers, outsourcers, independent contractors, and others—successfully is an organizational obligation.281 Why, then, do so many organizations mismanage their ethical obligations to these diverse groups so badly? The answer may lie in the way we interact with these different groups of people as separate issues. In fact, the ethical thing to do will be to treat all of the groups and individuals with whom we interact with respect and tolerance.282
What are we talking about here? All of the individuals that we connect with the company in any form, whether that is an employee, contractor, or gig worker, create organizational diversity. In past issues of this text, we note that unmanaged diversity can decrease employee commitment and engagement, lower job satisfaction, increase turnover, and increase conflict. Organizations must create a cultural change in order for diversity training to be successful. Culture change is not easy, but there are a couple of linchpins that will give such culture change programs a better chance of success—respect and tolerance.

The form of respect that we are talking about here is defined in the Cambridge Dictionary as: “the feeling you show when you accept that [others’] customs or cultures are different from your own and behave toward them in a way that would not cause offense.” The Cambridge Dictionary also defines tolerance as “willingness to accept behavior and beliefs that are different from your own, although you might not agree with or approve of them.”

So we have to learn to allow others’ behaviors and beliefs that we don’t agree with and accept that it’s okay to have different customs or cultures, as long as they don’t directly harm the organization. The only way to do this is to integrate these concepts into organizational training. Individuals from diverse backgrounds will have different behaviors, customs, and cultures. Therefore, any organization that intends to ethically manage relationships with all of the different groups with whom we come into contact will necessarily need to include training on tolerance and respect. Research shows that effectiveness of traditional diversity training is limited, but there is some evidence that diversity training that focuses on tolerance and respect may provide better results. Besides, it’s just “the right thing to do.”

LO 15.1 Discuss the term ethics and the factors that commonly contribute to unethical behavior.

There are many definitions of ethics, but they all have some common elements. The common elements include the concepts of morals, values, beliefs, and principles. These, in turn, lead to the need for personal integrity and trust in the character of another, or we won’t believe that they will act ethically if they have an opportunity for self-enrichment at the expense of others.

Factors that contribute to unethical behavior include individual personality traits and attitudes, moral development, and the situation. Personality makes some people more susceptible to unethical decisions when they have an underdeveloped sense of integrity. Moral development can cause individuals to act more childlike or to create their own strict sense of moral principles. The situation can tempt even those who might be otherwise ethical to be unethical in some cases if they think it is unlikely that they will get caught.

LO 15.2 Briefly discuss each of the identified ethical approaches and the factors to consider in creating codes of organizational ethics.

The golden rule is one approach that says to basically treat others as you would want to be treated. The Rotary’s four-way test asks four questions: (1) Is it the truth? (2) Is it fair to all concerned? (3) Will it build goodwill and better friendship? (4) Will it be beneficial to all concerned? If the answers are yes, then the action is probably ethical. The stakeholder approach says that if you are willing to have your decisions written about on the front page of the newspaper, then you can probably feel comfortable that your decision was ethical.

Consider these factors: Values “define what the company is about and make it clear that the company is based on honesty and fairness.” Principles apply our values to specific situations to identify actions that we consider ethical. Management support is critical because if senior managers do not pay attention to the code, others will not either. Personal responsibility identifies the fact that everyone is personally accountable for their own behavior and is expected to act ethically. Finally, compliance identifies applicable laws and regulations that guide ethical behavior in specific industries.

LO 15.3 Discuss the terms authority, responsibility, and accountability and how they relate to ethical behavior.

Authority is a positional right within the organization that allows the person to give orders to others in order to accomplish organizational goals. Responsibility requires the individual to accept their positional obligation to use the company’s resources effectively to help reach the organization’s goals. Accountability is the personal duty to use organizational resources correctly, and if we do not do so, we can be held personally liable for that misuse.

LO 15.4 Identify some of the common ethical issues that managers face in business.

Bribery—Payments are made to others to cause decisions that are favorable to the person providing the bribe.
Corrupt payments—These are made to allow the company to avoid scrutiny of their actions by government agencies.

Employment and personnel issues—Bias, child labor, forced labor, and other discriminatory labor practices all create the danger of unethical decisions.

Marketing practices—Dishonesty in marketing and the hiding of safety and quality defects may be tempting because of the cost of being honest.

Impact on the economy and environment—Unethical activity on the part of financial institutions can create terrible economic consequences, and other organizational actions that don’t take the consequences of those actions into account can cause irreversible harm to the environment.

Employee and customer privacy—Personal privacy can be harmed by unethical actions on the part of company employees, especially the use of databases with large amounts of personal information for unauthorized purposes.

LO 15.5  Contrast the concepts of equal employment opportunity, affirmative action, diversity, and inclusion.

EEO is governed by federal and state law. It is narrow and specific in its focus on requirements and prohibitions.

Affirmative action is governed by executive orders and federal court orders. It is voluntary. It consists of policies that broadly define actions to be taken to balance the workforce.

Diversity is a voluntary policy. It is designed to put people from different demographics together to work as a unified group and drive a better customer experience.

Inclusion is a voluntary policy. It is designed to make all workers feel a sense of belonging within an organization.

LO 15.6  Define corporate social responsibility (CSR) and briefly discuss the “business case” for CSR.

Corporate social responsibility is the concept that organizations have a duty to all societal stakeholders to operate in a manner that takes each of their needs into account. All stakeholders means all—not just shareholders or executives. The business case for CSR is based on the ability of the organization to help or harm various stakeholder groups and of those stakeholder groups, in turn, to help or harm the company. Each stakeholder group has different—and sometimes competing—interests, but the organization must balance these social responsibilities among all of the groups in order to succeed.

LO 15.7  Identify and briefly discuss the three levels of CSR available to the organization.

1. Legal CSR focuses on maximizing profits while obeying the law; it focuses on increasing sales and cutting costs to maximize returns to stockholders. In dealings with market stakeholders, these firms meet all of their legal responsibilities. In dealing with nonmarket stakeholders (society and government), they obey all of the laws and regulations.

2. Ethical CSR focuses on profitability and doing what is right, just, and fair. These companies meet reasonable societal expectations and exceed government laws and regulations to be just and fair to stakeholders.

3. Benevolent CSR focuses on profitability and helping society through philanthropy. This highest level of CSR is also called good corporate citizenship. Benevolent firms are philanthropic, giving gifts of money or other resources to charitable causes. Employees are expected, encouraged, and rewarded for being active volunteers in the community, often on company time.

LO 15.8  Briefly describe the concept of sustainability in a business context.

Sustainability means meeting the needs of the current generation without compromising the ability of future generations to meet their own needs. Businesses must practice sustainability today because so many resources are being overused to the point that they cannot be replenished and will ultimately disappear unless we quickly change our practices. Sustainability goals must be created and managed like any other organizational goal in order to improve business sustainability.

LO 15.9  Explain strategies to recruit and hire people who match the demographics of the community the business serves and why it is ethical to practice diverse hiring.

The need to reach new and more diverse talent requires a new approach to recruitment and finding that talent. Programs are seeking to find talent in high schools with a high representation of minorities and working through internships to get them experiences for better career choices.

It is ethical and necessary to promote and engage in diversity and inclusion, the key to success in achieving that is respect and tolerance.

**Key Terms**

- accountability, 521
- affirmative action, 525
- authority, 521
- cohesiveness, 529
- conflict, 529
- corporate social responsibility, 532
- creativity, 528
- divergent thinking, 529
- diversity, 526
- ethics, 512
- glass ceiling, 534
- innovation, 528
- principles, 519
- responsibility, 521
- sustainability, 539
- values, 519
Key Terms Review

Complete each of the following statements using one of this chapter’s key terms.

1. __ is the application of a set of values and principles in order to make the right, or good, choice.

2. __ are our basic concepts of good and bad, or right and wrong.

3. __ is the right to give orders, enforce obedience, make decisions, and commit resources toward completing organizational goals.

4. __ is the obligation to answer for something or someone or the duty to carry out an assignment to a satisfactory conclusion.

5. __ is the personal duty to someone else for the effective use of resources to complete an assignment.

6. __ is the concept that organizations have a duty to all societal stakeholders to operate in a manner that takes each of their needs into account.

7. __ is the thought that there are invisible barriers to advancement in business for women, as well as other minority employees.

8. __ involves meeting the needs of the current generation without compromising the ability of future generations to meet their needs.

Communication Skills

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

1. Do you think the term ethics is overused in today’s business environment? Justify your answer.

2. Will applying the golden rule always result in a decision that you can defend as ethical? Why, or why not?

3. Can you think of situations in which someone might violate the code of ethics in a company but should not be punished for it? Give examples.

4. As the HR manager, how would you go about getting the senior executives of the company to buy into adhering to the code of ethics?

5. Using the concepts of authority, responsibility, and accountability, can you explain what should happen to an individual who misuses company resources for personal gain? Provide an example.

6. Give two examples of decisions that could be made in a company that are legal but are still unethical.

7. Do you agree that companies have a duty to stakeholders other than their shareholders? If so, who else are they obligated to and why?

8. Can you identify one case in which you think the government (state or federal) is the most important stakeholder of a firm? Do not use the government as a customer but as another external stakeholder. Explain your answer.

9. In your opinion, do companies have a social contract with society? Why, or why not?

10. If you were in charge, what would you do to help some disadvantaged employee groups gain equality in your company?

11. Is sustainability just a marketing tool to get people to “think green,” or is it a necessary business tool? Defend your answer.

12. How would you motivate people in your organization to practice sustainability? Be specific with the managerial tools that you would use.

CASE 15.1 CHR. HANSEN HOLDINGS IS WORLD’S MOST SUSTAINABLE COMPANY

Chr. Hansen Holdings is a company you probably have never heard of, but its primary business affects most of the food you eat. Based in Denmark, the firm was originally founded in 1874 by Christian Hansen, a chemist. Initially, Hansen produced starter cultures for dairy products. Today, the multibillion-dollar company has over 3,000 employees and is one of the world’s largest suppliers of food coloring, enzymes, and food cultures. These ingredients are then added to many commercially produced foods in North America, South America, Europe, and Africa.(1)

Recently, Chr. Hansen Holdings was named the world’s most sustainable company. Corporate Knights, a Canadian-based media and investment research firm, bestowed the honor. According to Chr. Hansen CEO Mauricio Graber, “We are honored and proud that our efforts to work for a better world together with our customers are noticed and valued.”(2) This significant award demonstrates that a for-profit company can achieve a high degree of sustainability and be recognized for it.

How did the business earn such notoriety? Sustainability and corporate social responsibility manifest themselves throughout the company’s operations. For example, Graber’s salary is only 24 times that of the average employee on the front line. This is very low compared to other large, international firms. In addition, the board of directors is 30% women—again, higher than most companies.(3) But even beyond this, the company has demonstrated a commitment to the environment. In 2020, its Danish operations switched to 100% green electricity—meaning all the power for its business now comes from solar and wind. According to Graber, “All these elements have truly been a catalyst for change and an even stronger focus on what we
can do to contribute to a more sustainable future; mobilizing and inspiring all employees to do more and meeting the increasing expectations and ambition levels from our customers and investors.”(4)

Even as the company continues to grow, expansion of its offices has taken on a focus on sustainability and corporate social responsibility. Its new research and development facilities outside of Copenhagen are being constructed with sustainable processes and materials. The new construction makes ample use of natural light and interacts seamlessly with the natural environment surrounding it.(5)

For Graber, all of these efforts are worthwhile. “Chr. Hansen’s overall purpose is to contribute to a better world through the natural and microbial solutions we deliver,” he said. “We are grateful for the reinforcement of our position at the top of the world’s most sustainable companies and appreciate the good collaboration with our customers that support our continued journey towards a greener future for the planet.”(6)

Questions
1. What is Chr. Hansen Holdings doing that meets the definition of sustainability?
2. Using the definition of corporate social responsibility from this chapter, describe how Chr. Hansen Holdings meets this definition.
3. The three levels of corporate social responsibility discussed in this chapter are legal, ethical, and benevolent. Based on what you just read, at which level of corporate social responsibility is Chr. Hansen Holdings? Explain.
4. Would you prefer to work for a company that is genuinely committed to sustainability and corporate social responsibility? What would be the advantages? Disadvantages?

References

Case written by Dr. Steven Austin Stovall, Southeast Missouri State University

CASE 15.2 INTEL’S CODE OF CONDUCT AND ETHICS

The Intel logo is ubiquitous on computers and laptops—lowercase letters surrounded by a quickly drawn oval. But few people really understand the business that Intel runs. Founded in 1968, the company has grown steadily from its initial startup of producing semiconductors. Today, the $70 billion firm has over 100,000 employees and offices throughout the world. The company has diversified since its inception and currently offers all manner of processors, motherboards, wireless connectivity products, software, and business-consulting services. (5) Being such a large company, with tens of thousands of employees, means that the organization must stay focused on ethical business practices.

In March 2020, the organization released its updated code of conduct. This 22-page document explains to employees why ethics are important, the values of the company, how to be a responsible corporate citizen, laws affecting their operations, and how to respectfully treat coworkers; it even includes a glossary of the terms mentioned throughout the code. According to the document, “The Code of Conduct sets the standard for how we work together to develop and deliver products, how we protect the value of Intel and its subsidiaries, and how we work with customers, suppliers, distributors, and others.” In short, it provides the guidelines for all an employee’s dealings with coworkers, as well as stakeholders outside the company. Every employee is expected to read the code of conduct and understand its meaning.

In addition, the document lays out the five ethical principles to which Intel holds firmly. They are as follows:

- **Conduct business with honesty and integrity.** Conduct business with uncompromising integrity and professionalism, demonstrating honesty and high ethical standards in all business dealings and treating customers, suppliers, distributors, and others with fairness, honesty, and respect.
- **Follow the letter and spirit of the law.** Ensure that business decisions comply with all applicable laws and regulations of the many countries in which Intel does business.
- **Treat each other fairly.** Work as a team with respect and trust for each other.
- **Act in the best interests of Intel and avoid conflicts of interest.** Avoid situations where our personal or family interests interfere—or even appear to interfere—with our ability to make sound business decisions in the best interest of Intel.
SKILL BUILDER 15.1 ETHICS AND WHISTLE-BLOWING

Objective
To determine your level of ethics

Skills
The primary skills developed through this exercise are as follows:
1. HR management skills—Conceptual and design skills
2. SHRM 2018 Curriculum Guidebook—V: Sustainability/corporate responsibility

Assignment
For this exercise, first complete Self-Assessment 15.1 (available online).

Discussion Questions
1. Who is harmed by and who benefits from the unethical behaviors in Items 1 through 3?
2. For items 4 to 24, select the three (circle their numbers) you consider the most unethical. Who is harmed by and who benefits from these unethical behaviors?
3. If you observed unethical behavior but didn’t report it, why didn’t you report the behavior? If you did blow the whistle, what motivated you to do so? What was the result?
4. As a manager, it is your responsibility to uphold ethical behavior. If you know employees are doing any of these unethical behaviors, will you take action to enforce compliance with ethical standards?
5. What can you do to prevent unethical behavior?
6. As part of the class discussion, share any of the other unethical behaviors you observed and listed.

You may be asked to present your answers to the class or share them in small groups in class or online.
SKILL BUILDER 15.2 CODE OF ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

Objective
To better understand a business’s ethics and CSR

Skills
The primary skills developed through this exercise are as follows:
1. HR management skills—Conceptual and design skills
2. SHRM 2018 Curriculum Guidebook—V: Sustainability/corporate responsibility

Assignment
Select a specific business. It can be one you work for or, better yet, one you would like to work for in the future. Make sure the company you select meets the following criteria: It must have a written code of ethics and operate at the benevolent level of CSR.

Go online to the company’s website, and get a copy of its code of ethics and its report on its corporate social responsibility programs. Be sure to identify any of its sustainability practices—this information may be at a separate link.

Be prepared to make a report on your company’s code of ethics and CSR to the entire class or in a small group.