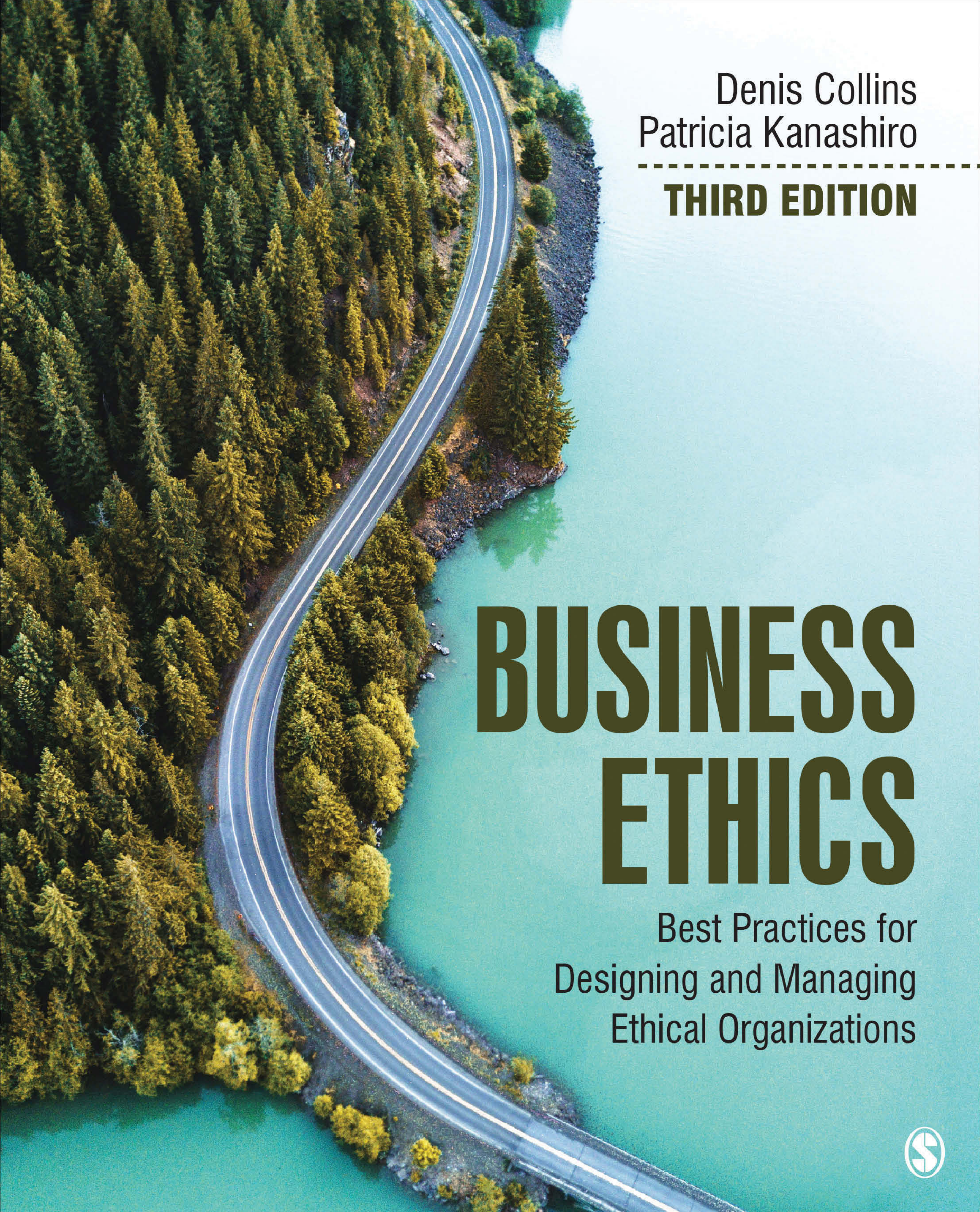

Denis Collins
Patricia Kanashiro

THIRD EDITION

BUSINESS ETHICS

Best Practices for Designing and Managing Ethical Organizations

Business Ethics

Third Edition

To my children, Seth and Anna Collins, and my wife, Dianne Jenkins. While writing this book, I had a small note next to my computer screen that asked, "What do Seth, Anna, and Dianne need to know to create an ethical organization?" This book contains my best efforts for them, and all college students.

To Professors Fred Kauffeld and Vince Kavaloski, whose dedication to creating a high-quality liberal arts institute of higher education around Edgewood College's five core values served as a practical inspiration.

To the medical staffs at Meriter Hospital and University of Wisconsin Hospital and Clinics. I am a terminal cancer survivor dating back to 1996, 24 years and counting, and have had cancer a few more times since then. There is no better way to spend my "bonus days" on earth than to help create ethical organizations and an ethical society.

There is one major difference between the cover of this beautifully designed book and the previous two editions: Please welcome Associate Professor Patricia Kanashiro of Loyola University Maryland as a coauthor. Near the end of our third-edition production process we received more fatal health news, forcing me to compose this dedication from Agrace, a Fitchburg, Wisconsin, hospice. Patricia will further broaden the textbook's ethical concerns given her research in corporate governance, sustainability strategy, and social and environmental challenges in developing countries.

A tip of the hat to everyone as they practice aligning their unique personal, institutional, and societal motives and consequences with the good.

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Business Ethics

Best Practices for Designing and Managing Ethical Organizations

Third Edition

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Edgewood College

Patricia Kanashiro

Loyola University Maryland

SAGE

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BRIEF CONTENTS

PART V CASES 441

DETAILED CONTENTS

PREFACE

"How many of you would like to work for an ethical organization?" I ask my students the first day of class. They all raise their hands. "How many of you work for an ethical organization?" Some raise their hands, and some do not.

"How many of you want to work for an ethical boss?" Once again, all hands shoot up in the air. "And how many of you work for an ethical boss?" Some hands remain in the air, and some disappointingly are lowered.

All organizations can be of high integrity. But doing so requires planning and effort because of competing pressures and human fallacies. This textbook is aimed at helping students to create and reinforce high-integrity organizations and to become managers of high integrity.

This is a major undertaking. Every year has its own unique set of high-profile business scandals and tragedies. In 2015, it was Volkswagen for an emissions testing fraud.[1] In 2016, Wells Fargo employees, in the pursuit of stretch goals, falsified thousands of customer transactions.[2] In 2017, Uber's macho workplace culture contributed to severe sexual harassment.[3] Why must businesses continually duplicate the ethical mistakes of Lincoln Savings and Loan Association (1980s), Long-Term Capital Management (1990s), Enron and Arthur Andersen (2000s), and Wells Fargo (2010s)? They are different forms of the same ethical problem—fraud.

Every day, some employees struggle with work issues that can have major ethical ramifications. For security reasons, a bank branch manager knows the first three numbers to the cash vault and the assistant manager knows the second three numbers. This way nobody knows all six numbers. Unexpectedly, the branch manager is unable to arrive on time to jointly open the vault. Customers will be waiting for service. Should the branch manager violate policy and tell the assistant manager the first three numbers to the vault? Should the assistant manager accept the numbers? For the sake of customer service, they did. The bank's security cameras filmed my student, the assistant manager, opening the vault on his own. Both he and the branch manager were fired, despite years of admirable service.

A PRAGMATIC AND PROACTIVE APPROACH

The first two habits of Stephen Covey's *The 7 Habits of Highly Effective People* are "Be Proactive" and "Begin With the End in Mind."[4] Beginning with the end in mind, it is possible to create businesses that are profitable *and* ethical. Managers must be proactive to simultaneously achieve these highly desired goals; it does not happen by accident. Yet many organizations struggle with both financial and moral excellence because they are deeply integrated with each other. According to the Ethics Resource Center's survey on corporate ethics, 41% of respondents observed at least one major ethical misconduct, some of which were illegal, at work during the past year, and 26% of them were happening on an ongoing basis.[5]

What can be done to fix the moral ills of organizations?

A doctor applying the scientific method to a sick patient defines the illness, determines the causes of the illness, envisions a healthy patient, and then prescribes medicine that will generate health. The same scientific method can be pursued for addressing the moral ills of organizations.

- First, managers must recognize and identify the moral problems. Moral imperfections are not limited to a handful of renegade CEOs, financiers, or subordinates. We are all morally imperfect people, and, by extension, every organization is morally imperfect.
- Second, managers must understand the causes of organizational moral imperfections. Many people who behave unethically believe they are doing the right thing based on how they view the world or frame the trade-offs.
- Third, managers must have a vision, and understand the benefits, of a morally healthy organization.
- Fourth, managers must understand and implement strategies that will result in achieving the vision of a morally healthy organization.

That is what this book does. The textbook takes a pragmatic and proactive organizational systems approach based on the best practices in business ethics organized around an Ethical Systems Model Framework and Survey. Managers should do the following:

- Recruit individuals who demonstrate and sustain ethical behavior over time
- Orient new employees to the organization's code of ethics, code of conduct, and ethical decision-making framework
- Respect employee and customer diversity
- Report ethical misbehaviors
- Foster ethical leadership
- Design work goals and performance appraisals that reward ethical behaviors
- Engage and empower employees to achieve superior performance
- Manage the organization's interactions with the natural environment
- Conduct meaningful community outreach

By the end of the book, students will know how to design and manage ethical organizations and work units, how to make ethical decisions, and how to be a virtuous person. Students will be equipped with an array of best practices in business ethics that can be implemented soon after graduation.

FEATURES OF THE BOOK

Each chapter contains real-life ethical dilemmas and issues; specific examples of, and advice on, best practices in use; and case studies for more in-depth analysis.

Ethical Dilemmas and Issues

- "What Would You Do?": These dilemmas at the beginning of each chapter are based on my students' real-life experiences.
- "Up for Debate": These are current controversial business ethics topics worth debating in class.
- Original SAGE ethical dilemma videos: These online video simulations place students in the role of a decision maker within an organization and ask them to apply their critical thinking skills when faced with a real-world ethical challenge. Each video is tied to three assessment questions that help students shift from understanding to application.

Best Practice in Use

- "Ethics in Action": Each chapter highlights a company implementing ethical practices discussed in the chapter.
- "Ethical Applications": Each chapter offers advice on how to implement a best practice discussed in the chapter.

In-Depth Case Studies

This textbook contains case studies on a wide range of topics. The cases include business responses to Covid-19; student debt; diversity training; sexual harassment and gender discrimination; climate change; major public scandals at Boeing, Volkswagen, and Wells Fargo; the history of scandals and culture change efforts at Deutsche Bank; ethical issues in the pharmaceutical and fair-trade industries; the ethics of philanthropy trends; Monsanto's reputation related to genetically modified organisms; Foreign Corrupt Practices Act compliance issues; and ethical issues associated with paying a living wage.

CONTENT AND ORGANIZATION

Chapter 1: Unethical Behaviors in Organizations and Human Nature. Managers must recognize that moral imperfection is a fact of life and then develop systems and checks-and-balances to minimize the exercise of moral imperfections within their own organizations. This chapter discusses research and insights on human nature, six stages of moral development, why good people occasionally behave unethically, and workplace implications.

Chapter 2: The Evolution of Business Ethics. People engaged in business activities have been acting ethically and unethically since the beginning of human history. This chapter describes some prominent business ethics issues related to economic growth during pivotal moments in U.S. history. The chapter discusses Adam Smith's ethical defense of capitalism and culminates with the Optimal Ethics Systems Model as a conceptual framework for maximizing ethical behavior and reducing ethical risks in organizations.

Chapter 3: Corporate Governance and Stakeholder Relationships. Companies have a tremendous impact on the well-being of communities, and what happens inside a community can have a tremendous impact on organization life. This chapter describes two primary theories—shareholder theory and stakeholder theory—and the different roles they assign to key constituents. Governance best practices are provided, and the most common problems and issues are identified such as diversity and sexual harassment.

Chapter 4: Hiring Ethical People. Hiring just one employee with an unethical value system—someone whose sense of morality and justice does not match that of a high-integrity work culture—can corrupt an organization. This chapter reviews the current research on a variety of ethics-related job-screening techniques, such as background checks and integrity tests, to determine which methods are more likely to differentiate between ethical and unethical job candidates. A six-step process for evaluating the ethics of job candidates is provided.

Chapter 5: Codes of Ethics and Codes of Conduct. Ethical dilemmas arise because people have different ethical beliefs, and many situations are ambiguous. An organization's code of ethics serves as its conscience and provides employees with a common ethical reference point. The chapter explains the differences between a code of ethics and a code of conduct, summarizes their prevalence and content, and describes how to use a code of ethics to assess and improve ethical performance.

Chapter 6: Ethical Decision-Making. Employees need to know how to independently derive a moral answer to business issues. This chapter explores a variety of factors that influence whether a person decides to behave ethically or unethically. People quickly form an ethical intention based on moral intuitions and then sometimes make a revision by applying a rational ethical decision-making process. The chapter provides a systematic seven-question ethics decision-making framework grounded in moral philosophy's six ethical theories and a critical thinking decision-making process to help derive moral conclusions.

Chapter 7: Ethics Training. Ethics training initiates dialogue at work around contentious issues and helps create a culture of trust. This chapter provides nine ethics training workshops that can be conducted at work.

Chapter 8: Respecting Employee Diversity. The population of the United States continues to diversify, as does the employee and customer base of organizations. This chapter examines the most common types of workplace discrimination and the best operational practices for enhancing and managing diversity, including a 10-step process for implementing a diversity initiative. Instructions are offered for conducting a series of diversity training workshops that increase social group self-awareness, explore specific issues, and help employees manage different communication styles.

Chapter 9: Ethics Reporting Systems. Managers must be made aware of, and employees need to discuss, ethical issues as they arise. This chapter examines why some employees maintain silence when they observe ethical misconduct, and what management behaviors and internal mechanisms can elicit such essential information. The chapter explores three alternative internal communication mechanisms for obtaining information about unethical behavior: an ethics and compliance officer, an ombudsman, and an assist line. A failure in these internal communication systems can result in external whistleblowing, which is damaging for both the organization and the whistleblower.

Chapter 10: Managers as Ethical Leaders and Performance Assessments. Three aspects of daily organizational life significantly affect an employee's ethical performance: the direct supervisor's behaviors, work goals, and performance appraisals. This chapter explores how managers are ethical role models and how to be an ethical leader. Managers can reinforce ethical behavior among employees through work goals and performance appraisals that encourage and reward ethical behaviors. Several surveys are provided to help managers evaluate themselves and others in terms of ethical leadership and behaviors.

Chapter 11: Ethically Engaging and Empowering Employees. Managers must develop workplaces where employees are fully engaged with their job tasks and empowered to make decisions. This chapter examines how to engage employees by meeting essential human needs, ensuring organizational justice, and providing meaningful work. The chapter also explores how to empower employees by giving them decision-making authority, providing relevant information about organizational operations, and sharing financial benefits generated by their efforts.

Chapter 12: Global Sustainability. Sustainability management is a competitive advantage that saves the organization money, enhances its reputation, and attracts and motivates employees. This chapter summarizes environmental problems and efforts made by organizations, government, and businesses to address them. It also explores how superior environmental performance can be achieved by screening suppliers, adopting an environmental management system framework, conducting environmental risk assessments, designing eco-friendly products, operating in green buildings, and monitoring environmental performance indicators.

Chapter 13: Global Corporate Citizenship. The well-being of the host community profoundly affects an organization, and vice versa. This chapter describes the business case for community involvement, how managers can engage multiple stakeholders on a wide variety of issues, and how to develop a diverse portfolio of giving opportunities. The chapter also examines work–life balance and how to align community outreach with the company's mission and assets, choose a strategic partner, administer the community involvement process, and assess and report social performance. Chapter 13 also contains a section on international corporate citizenship and discusses the UN Global Compact principles and problems associated with applying cultural relativism internationally. The organizational processes described throughout this textbook are universal. They can and should be applied in organizations located in any nation.

New to This Edition

The third edition of *Business Ethics* is built around the systematic strength of the Ethical Systems Model, which served as the foundation of the first and second editions. Many textbook adopters complimented the model's usefulness as a guide to creating ethical organizations. The first edition was one of the first "how-to" business ethics textbooks, organized from the perspective of a CEO or manager wanting to design an organization or business unit in a way that increases ethical behaviors and minimizes unethical behaviors.

The third edition's 13 chapters follow the same orderly and systematic format as the first and second editions. It focuses on best operational practices companies have implemented for generating ethical behaviors, practices described with real-life situations. The book's approach remains engaging and written in a way that can generate interesting student discussions as part of the learning process. Practical advice is provided on operational issues relevant to business ethics, such as hiring ethical job candidates, using codes of ethics to strategically drive organizational change, conducting ethics training and diversity workshops, and applying a pragmatic ethical decision-making framework.

Changes and improvements in this third edition of *Business Ethics* include the following:

- *Updated information*: The data and best practices have been updated to incorporate the most current available research findings.
- *Ethical Systems Model*: Each best-practice chapter contains an Ethical Systems Model (formerly called the Optimal Ethics System Check-Up) survey summarizing the best practices discussed in the chapter. Students can use the survey to assess, benchmark, and continuously improve their own organization or another organization. To further emphasize the model, a feature titled *Ethical Systems Model: Best Practice* highlights where the relevant content in the chapter is discussed and demonstrated.
- *New "What Would You Do?" opening dilemmas*. Many chapters begin with a new opening dilemma based on my students' real-life experiences. These have also been created as videos that can be found online.
- Feature changes:
  - The Best Practices box has been renamed *Ethical Applications* and has been integrated into the reading content to be sure this is read and emphasized as critical to know and understand.
  - *Self-Assessments* have been developed for each chapter and will be available online.
  - *Ethics in the News* feature has been removed from this edition.
- New chapters: Chapters 3, 12, and 13 are new to this edition. Chapter 3 focuses on corporate governance and stakeholder relationships, Chapter 12 focuses on global sustainability, and Chapter 13 focuses on global corporate citizenship.
- New case studies: New case studies explore the opioid crisis, business responses to Covid-19, the minimum wage, student debt, the #MeToo movement, climate change, and corporate citizenship.

CHAPTER-SPECIFIC CHANGES

Chapter 1

- Revised Unethical Behaviors and Human Nature section
- New section "Why Be Moral?"
- Added "separation thesis" explanation
- Updated all relevant information
- New opening "What Would You Do?" feature
- Updated Starbucks "Ethics in Action" example
- Added information about COVID-19 ethical issues

Chapter 2

- Moved narrow and broad CSR discussion to new Chapter 3
- Moved Executive Pay section to Chapter 3
- Moved FCPA section to Chapter 13
- Included info on coronavirus pandemic

Chapter 3

- Rewrote section on B Corporations and integrated into new Corporate Governance chapter
- Streamlined Traditional Shareholder Governance System section as recommended by reviewers
- Contains new "What Would You Do?," "Ethics in Action," and "Ethical Applications"

Chapter 4

- Updated all information
- New "What Would You Do?" opening dilemma
- Created new section on smoker hiring issues
- Created new section on nepotism

Chapter 5

- Updated all information
- New "What Would You Do?" opening dilemma

- Extended discussion of "Positive Impact (of Codes) on Employee Behaviors" to "Positive Impact on Employee Behaviors and Firm Performance"
- Added new information about efforts to create an AI code of conduct for responsible use in the "Meet Legal Requirements and Industry Trends" section
- New "Ethical Applications" on a code of "Commitment to My Coworkers"

Chapter 6

- Updated all information
- New "Ethics in Action" on Rotary Four-Way Test

Chapter 7

- Updated all information
- Added the latest Gallup poll survey on ethics training
- Added training workshop: "Scripting Responses to Unethical Behaviors"
- Added training workshop: "Gratitude and Appreciation"
- Added training workshop: "Inspirational quotes"

Chapter 8

- Updated all information
- Created new "What Would You Do?" opening dilemma
- New "Ethics in Action" on AT&T
- Added DISC assessment in personality dimension
- Added #MeToo movement
- Added microaggressions
- Added Starbucks racial discrimination incident and closing stores for antibias training
- Changed "Ethical Applications" to AT&T's Best Practices

Chapter 9

- Updated all information
- Created new "What Would You Do?" opening dilemma
- Created new Organization Ethics Audit section requested by reviewer
- Added information about Google employee protests

- Added information on using a chatbot (also presented as a new "Ethics in Action")
- New "Up for Debate" about whistleblower reward program rules

Chapter 10

- Updated all information
- Added new info such as Novartis now linking bonuses to ethical behaviors and Theranos fraud
- Created new section on how to develop ethical skills, as requested by a reviewer
- Inserted information on ethical business leadership response to the Covid-19 pandemic

Chapter 11

- New research on managers not intending to be unfair
- New info on managing an unethical boss
- New info on recent French "institutional moral harassment" lawsuit
- Expanded Meaningful Work section with suggested exercise for students
- New "Up for Debate" about employee motivation

Chapter 12

- Significantly reorganized the previous "Environmental Management" into "Global Sustainability" to focus on a more global perspective
- Includes more information on global climate change issues and impacts, the Paris Agreement, science-based targets, and new initiatives such as Project Drawdown and circular economies as requested by reviewers
- Updated data to latest available information
- Created new "Ethics in Action"—Burt's Bees 2020 Sustainability Goals as requested by reviewers

Chapter 13

- Significantly rewrote the previous "Corporate Citizenship" Chapter 12 into "Global Citizenship"
- Updated all data to latest available information
- Wrote new sections on globalization, cultural factors, and civilizing efforts; addressed "When in Rome Do as the Romans Do," integrative social contract theory, child labor, non-Western society CSR examples, and bottom of the pyramid

- Expanded United Nations Global Compact section
- Moved Foreign Corrupt Practices Act section from Chapter 2
- Reorganized Philanthropy and Volunteerism and Stakeholder Engagement sections
- New changes in response to reviewer feedback
  - Examples of ethical risks taken by McKinsey, Uber, and U.S. pharmaceuticals when conducting international business
  - More social entrepreneurship examples and impact, including Better World Books, to appeal to college students
  - Added coronavirus example at beginning of chapter and later in terms of coordinated response efforts by multinational corporations

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I would like to thank my Edgewood College colleagues for taking on the challenge of teaching about business ethics across the Business School curriculum.

I also thank Ken Spuda, Rebecca Zambrano, Jane McCarthy, Mark Barnard, Jonathan Bloy, Kevin Rufener, Joe Wilker, our library staff, our information technology staff, and my many undergraduate and graduate students at Edgewood College for their support, assistance, ideas, advice, and encouragement. I am grateful to all the case writers who made complex business ethics issues understandable. Finally, I offer a special thanks to workshop participants and clients for accepting the challenge to implement the best practices discussed in this book. I would also like to thank the following reviewers for their participation in all stages of this book's development and for their insightful comments:

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Denis Collins, Ph.D., is a tenured professor of business at Edgewood College and has been teaching business ethics in undergraduate and graduate programs for more than 30 years. He received a Ph.D. in business administration from the University of Pittsburgh and is considered a leader among business ethics professors. He has published numerous books and articles. Dr. Collins currently serves on the editorial boards of several academic journals and has served on the board of governance for several professional organizations.

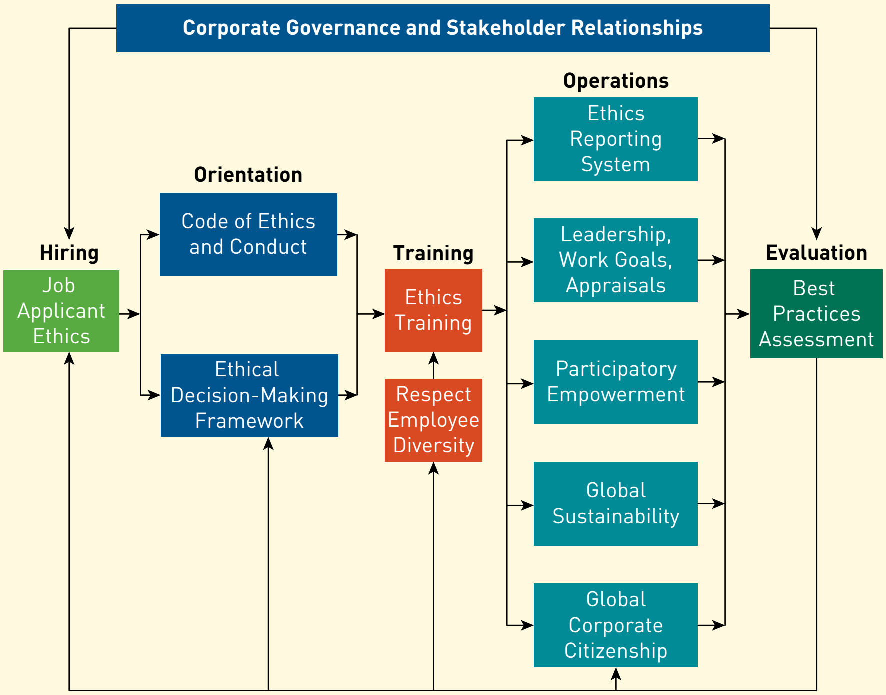
Dr. Collins is the recipient of the 2015 Wisconsin BBB Torch Award for Ethics for service to Wisconsin's Better Business Bureau, the 2014 Sister Stevie Award for embodying Edgewood College's mission and spirit, the 2011 Samuel Mazzuchelli Medallion for empowering others, the 2010 MBA Outstanding Faculty Award, and the 2009 Estervig-Beaubien Outstanding Professor Award for excellence in teaching and mentoring at Edgewood College. Three times, he was voted the outstanding MBA faculty member at the University of Wisconsin–Madison in *Business Week*'s survey of alumni. Dr. Collins was a finalist for the Academy of Management's Distinguished Educator Award.

Patricia Kanashiro, Ph.D., is an associate professor of management at Loyola University Maryland. Her research interests and publications focus on corporate governance, sustainability strategy, and social and environmental challenges. She serves on the editorial board of the journal *Organization & Environment* and received the Outstanding Service Award from the Academy of Management—Organizations and the Natural Environment division. Dr. Kanashiro was awarded a 2-year Fulbright scholarship to pursue her master's in international development at the University of Pittsburgh. She received a master's in economics and a doctoral degree in strategic management and public policy from The George Washington University. Prior to joining academia, she worked for more than 15 years in the private and nonprofit sectors, including ABN AMRO Bank, Institutional Shareholder Services (ISS), United Nations–International Labour Organization, and Ethos Institute for Business and Social Responsibility. Dr. Kanashiro is a sansei (third generation from Okinawa, Japan) born in Sao Paulo, Brazil, and lives in Bethesda, Maryland, with her husband and two boys.

PART

I

AN INTRODUCTION TO BUSINESS ETHICS



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1 UNETHICAL BEHAVIORS IN ORGANIZATIONS AND HUMAN NATURE

LEARNING OBJECTIVES

After reading this chapter, you should be able to

1.1 Identify common types of unethical behaviors in the workplace.

1.2 Describe how unethical behaviors can be very costly to organizations.

1.3 Explain the competitive advantages of creating and maintaining an ethical organization.

1.4 Describe different theories of human nature as related to ethics at an individual's time of birth.

1.5 Explain the stages of moral development.

1.6 Discuss why good people occasionally behave unethically and why morality should be practiced.

WHAT WOULD YOU DO? BILLING FOR SERVICES RENDERED

After graduation, you enter a 6-month medical office manager training program associated with a prestigious hospital. The training program consists of 3 weeks in each of various office operations. You greatly enjoyed 3 weeks performing customer service and learning about accounting functions. Your latest 3-week assignment is in the billing department.

Medical bill coding is fascinating and complex. Coders are health care professionals responsible for processing patient data, such as treatment records and related insurance information. Coders translate billable information into medical codes sent to insurance companies for proper reimbursement.

A patient arrives early in the day looking absolutely miserable. Unfortunately, the patient requires treatment not covered by his insurance company. While walking past the examining room you overhear the patient say, "I can't afford paying for the medicine out of pocket." The caring doctor tells the patient not to worry, she can work around that problem. "Thanks doc," the patient says, "you're a lifesaver."

Back in the bill coding department you receive the patient's documents to code. You know the patient was not treated for the illness that appears on the document and point this out to your trainer. "This happens on rare occasions," he tells you. "It's a similar illness, and the insurance companies will never know. They make a fortune from us anyway. On a few occasions they somehow find out, and we just say it was a simple mistake. The doctor has an office account that covers the amount not reimbursed to patients. Everyone does it. Just enter the code for the illness reported by the doctor."

Critical Thinking Questions

1. What *could* you do?
2. What *would* you do?
   a. Enter the code for the illness reported by the doctor
   b. Refuse to enter the code for the illness reported by the doctor
   c. Something else (if so, what?)
3. Why is this the right option to choose?
4. What are the ethics underlying your decision?

ETHICAL ISSUES AT WORK

"*Business ethics*, isn't that an oxymoron?" The answer to this often-repeated question is no, ethics permeate business activities. Businesses operating based on good ethical principles abound and attract good employees and customers. Businesses lacking good ethics are often held accountable through litigation, lost customers, bad reputations, and high employee turnover.

In general, businesses significantly improve the quality of life by providing goods and services that fulfill consumer needs. Service to others, one of the most admirable ethical principles, is at the heart of business operations.

A **well-managed organization** is a *community of people* on a *common mission* to be *effective, efficient, and ethical*. An organization is a community, not just a bunch of individuals, and a community of people who are both rational and emotional, not robots. Your mission as a manager is to develop a sense of a common mission among this community of people to accomplish goals (effective) without wasting resources (efficient), in a manner that respects each person's dignity and integrity (ethical). The financial well-being of organizations depends on employees appropriately serving the needs of customers, owners, and other employees. If employees are not ethical, then the effectiveness and efficiency accomplishments will be short-lived.

Look around. A business built the house you live in, the alarm clock that wakes you up, the bed you sleep in, the clothes you wear, the cell phone you use, the periodicals you read, the computer you work on, the chair you sit in, the food you eat, the music you listen to, and the car you drive to school or work. Generally, consumers want these products to be trustworthy, otherwise they feel disrespected.

Providing goods and services is just one ethical aspect of business operations. Managing a business is complex because it requires integrating a broad cooperative network of human interactions. Assume you have an idea for a new business. You will need skilled and trustworthy people to help with product development, financing, marketing, accounting, management, and sales. You will be interacting with suppliers as well as customers. Some of the people in your network, and those wanting to become part of your network, may have high ethical standards; some may not.

Well-managed organization Community of people on a common mission to be effective, efficient, and ethical.

An organization's ethical environment must be managed. Because of imperfections in human nature and control systems, all organizations are ethically challenged, some more so than others. The judicial system overflows with lawsuits for alleged wrongdoings filed against organizations by employees, customers, suppliers, and other organizations. Day after day, week after week, and year after year media outlets highlight the latest unethical business activities. The chair you purchased as high quality may have been made by child laborers under harsh working conditions; the website you just clicked on may now be collecting data about your private life. Ethical issues seem endless and influence the public's negative perspectives about business, despite the numerous positive personal interactions individuals have with businesses.

Federal, state, and local governments create new rules and regulations to ensure business stakeholders are treated appropriately. A **stakeholder** is any person or organization that is affected by, or could affect, an organization's goal accomplishment. Regulators are tasked to ensure employees are fairly treated, customers and suppliers are dealt with honestly, and the natural environment is protected.

Ethical behavior at work is a personal choice influenced by an individual's past behaviors and current workplace environment. Some owners and managers choose to surpass the minimum requirements of existing rules and regulations, some choose to meet existing rules and regulations, and others continually exploit loopholes in existing rules and regulations. Stakeholders reward ethical organizations that go beyond compliance with their loyalty and avoid doing business with organizations that violate good business practices.

This chapter discusses why appropriately managing ethics is essential for every organization. The chapter explores ethical issues at work, costs associated with unethical behaviors, competitive advantages of being ethical, theories of human nature, individual moral development, and why good people occasionally behave unethically. Awareness of these factors is essential to thriving as a manager.

Daily Occurrence of Ethical Issues

Ethics are similar to breathing and blinking, with a slight twist. How many times do you breathe and blink in a day? We breathe and blink subconsciously, unaware that daily the average adult takes 18,000 breaths and blinks 15,000 times. Just because you are unaware of breathing and blinking this many times does not mean you don't do them.

Similarly, we tend to be unaware that every decision made during a day can be analyzed through an ethical lens and has ethical ramifications. How many times today did you think or say something was "right" or "wrong" or "good" or "bad?" Each time you did, you performed an ethical analysis.

Businesspeople create organizational problems when their business analysis is conducted without ethical analysis. The **separation thesis**, held by some business leaders, maintains that business issues can be separated from moral issues. As a result, these business leaders are

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Stakeholder Any person or organization that is affected by, or could affect, an organization's goal accomplishment.

Separation thesis A theory maintaining that business issues can be separated from moral issues.

blindsided by stakeholder uproars and resultant obstacles. Business ethicists Jared Harris and R. Edward Freeman argue that "separating economic considerations and ethical considerations is impossible."[1] They are integrative concepts that cannot be disentangled. Business decisions impact people, and whether that impact is good or bad, or right or wrong, is the domain of ethics. A decision to relocate facilities from one locality to another may be considered solely on financial concerns, but for the abandoned employees and community members, who are harmed by the decision, framing the action with an ethical lens can greatly harm the company's reputation and bottom line through rebellious actions.

From a deep analytical perspective, all decisions are initiated by motives and result in consequences. Were our motives and intentions for making the decision good or bad, and were the consequences of our actions good or bad? Unlike breathing and blinking, which are automatic, human beings possess free will and can choose to behave ethically or unethically in any particular situation. Nonetheless, many times we make decisions as if acting subconsciously on automatic pilot. We often don't consider the ethical nature of our decisions until we become aware that our actions harmed someone.

When an organization employs someone, that individual brings to work unique job skills and ethics. What are ethics? **Ethics** are the principles a person uses to determine whether an action is good or bad. Every stakeholder interaction can be interpreted through an ethical lens.

People experience a multitude of ethical dilemmas daily because almost every decision and action a person makes affects other people:

- Should you arrive at work early, on time, or late?
- Should you submit adequate work that meets a deadline or submit the highest-quality work possible and miss the deadline?
- Should you inform your boss about your colleague's questionable work habits?
- Should you leave work at the designated time or cancel after-work plans and stay late to finish a project?

Ethical dilemmas are more obvious to some businesspeople than others, particularly during a time of crisis. As soon as the first U.S. citizen died from the coronavirus, some entrepreneurs sought new business opportunities to get rich quick. Obviously, the demand for hand sanitizer would soon skyrocket. Why not rent a U-Haul for 3 days, travel throughout rural Tennessee, purchase as many hand sanitizers and face masks from stores before prices increase, and then sell them at the highest prices possible on Amazon and eBay to earn huge profits? There's nothing illegal about it—it's just maximizing profits as a reward for your future-oriented business thinking. That's what an entrepreneurial Tennessee man did.[2] For 10 years the Tennessean made a living selling hot products on Amazon and eBay. He sold his first 300 bottles of hand sanitizer on Amazon for up to $70 each; 2,000 pandemic packs he bought at $3.50 each sold for at least $40 each. That was just the beginning. And he was not the only businessperson implementing this profit strategy.

Ethics The set of principles a person uses to determine whether an action is good or bad.

Although it didn't seem like an ethical issue to the Tennessean, it was an ethical issue to people wanting to protect themselves from the virus, particularly medical care workers, hospitals, police, and anyone else interacting with the public. He received hate mail and death threats. In response to a public outrage, Amazon delisted him. eBay went a step further and banned the sale of all sanitizers and masks in the United States. When Tennessee declared a state of emergency, his actions officially became illegal. The state's attorney general began investigating him for breaking the now-activated price-gouging law. He was left with 17,700 bottles of unsold hand sanitizer, which he donated to churches for distribution in hopes of avoiding fines.

Meanwhile, other businesspeople did just the opposite. They saw the pandemic as a time to care for their employees and customers.[3] Home Depot froze prices on high-demand Covid-19 product categories and stopped selling face masks, which they then donated to hospitals, health care providers, and first responders. Lowe's provided employees with 14 days of emergency paid leave. With their companies facing massive layoffs, Disney board chairman Bob Iger forfeited his salary and CEO Bob Chapek took a 50% pay cut.

If you don't realize you experience a multitude of ethical issues every day—"that seems like a good/bad or right/wrong thing to do"—then you are sleepwalking through life. You are not paying attention to, or experiencing, the moral environment that surrounds you.

Ethical dilemmas are of two types, either conscious or unconscious. A *conscious* ethical dilemma occurs when you know an action is right or good, but you are tempted to do what is wrong or bad. You know you should come in to work on time today, but you are tempted to come in late, particularly since you left work late last night. Coming in late today may seem bad because coworkers are depending on you, but you think you deserve to sleep an extra hour or two. This is a conscious ethical dilemma; you are fully aware that you are making a moral choice between two competing actions. One way to resolve this ethical dilemma is to contact your boss for permission to come in late.

An *unconscious* ethical dilemma happens when you are not aware something is a moral issue, yet others might. You worked hard late last night and feel entitled to come in late, so you do. In your mind, it is not a moral issue, it's simply a personal or business decision. For a variety of reasons, you didn't even consider the negative impact your decision would have on other employees waiting for essential information they expected you to share so they could perform their early morning work. Your unanticipated lateness ruins their daily work schedules. You did not think coming in late was an ethical dilemma, but others, particularly those harmed by your behavior, did.

Some choices are obviously right or wrong, whereas others are questionable. Ethical analysis considers all aspects of an action sequence. An **action sequence** consists of the motivation behind the act, the act itself, and the consequences of the act. Acts are morally neutral. For instance, there is nothing inherently right or wrong with a manager speaking to an employee. However, the motivation leading to the act, and the consequences of the act, carry ethical weight. In this sense, actions and behaviors are surrounded, or sandwiched, by ethics.

Ethical dilemmas Situations where it is not clear whether an action is morally right or wrong, or when you know an action is right or good but are instead tempted to do what is wrong or bad.

Action sequence Consists of the motivation behind the act, the act itself, and the consequences of the act..

An ideal ethical situation is one in which a person has good motives and the act results in good consequences. When this alignment occurs, people often do not realize the act is an ethical issue, such as helping a colleague after you are caught up with your own work tasks. At the other extreme, the most unethical situation is one in which a person has bad motives and the act results in bad consequences, such as deliberately lying about a coworker's performance because you want the coworker to be undeservedly fired. Many action sequences fall between these two ethical extremes, when just motives or consequences fall short of the ideal.

Sometimes, good motives can generate bad consequences. Trying to help a colleague perform one task, for example, might distract the person from meeting an important deadline. Sometimes, bad motives can generate good consequences. An employee's selfish refusal to assist an annoying colleague may result in the colleague obtaining assistance from an even more qualified person. When evaluating these less-than-ethically-ideal situations, some people place greater ethical weight on having proper motives, such as **idealists**, whereas others place greater weight on achieving favorable outcomes, such as **consequentialists** or **pragmatists**.

Extent of Unethical Behaviors

Every organization experiences ethical and unethical behaviors. What is the extent of unethical behaviors at work? The Ethics & Compliance Initiative (ECI) has been conducting business ethics survey research since 1994. In 2019, among the 18,000 ECI worldwide survey participants, 58%, more than half, reported their organization *did not* have a strong commitment to ethical leadership.[4] Table 1.1 summarizes five common unethical behaviors observed in business.

Even more troubling, 45% of the global respondents observed at least one of six types of major ethical misconduct during the past year. The observed misconduct rate was higher—50%—among North American respondents.[5]

Some types of misconduct were observed more often than others. Of global respondents who observed misconduct, the most common types were the following:

- Conflict of interest: 27%
- Abusive behaviors: 25%
- Violations of health and/or safety regulations: 24%
- Corruption: 19%
- Discrimination: 16%
- Sexual harassment: 13%

Among United States employees, 21% observed abusive behavior, 12% observed sexual harassment, and 12% observed discrimination.[6] Sixty-one percent of such misconduct was considered either serious or very serious, and 62% happened on multiple occasions.

Idealist An individual who places greater ethical weight on having proper motives.

Consequentialist An individual who places greater weight on achieving favorable outcomes; also known as a **pragmatist**.

How did survey participants respond to the observed misdeeds? Thirty-four percent did not report the misconduct.[7] Part of the reason was attributed to fear of retaliation, a reasonable fear given that 43% to 46% of those who reported sexual harassment, corruption, or discrimination experienced retaliation.

TABLE 1.1 ■ Five Common Unethical Behaviors

1. *Misuse of company time.* Altering time sheets, covering up for someone who shows up late, and conducting personal business on company time.
2. *Abusive behavior.* Using one's position or power to mistreat others and create a hostile work environment.
3. *Employee theft.* Taking products, not recording sales to friends, and manipulating expense reimbursements.
4. *Lying to employees.* Purposely misleading other employees or trying to avoid an uncomfortable interaction.
5. *Violating company Internet policies.* Surfing the Internet and checking Facebook or Twitter accounts instead of working.

The Institute of Leadership & Management surveyed United Kingdom managers about what they considered to be the most common examples of unethical behavior at their workplaces.[8] The 1,600 manager respondents listed the following as the top misbehaviors:

- Taking shortcuts or performing low-quality work: 72%
- Lying to hide mistakes: 72%
- Bad-mouthing colleagues: 68%
- Falsely blaming others when work is not completed: 67%
- Slacking off when no one is watching: 64%
- Lying to hide a colleague's mistakes: 63%

These unethical behaviors help explain why businesses score so poorly on Gallup poll public trust surveys. Throughout the 2010s, about two-thirds of Gallup poll global respondents believed corruption was widespread in business, a sentiment held by 60% of Americans about the United States.[9] Only 33% believed their own company would never lie or conceal information from customers, and just 29% believed their coworkers always do what's right for customers.

In a 2019 Gallup poll, respondents were asked to assess whether a profession had "very high" or "high" ethical standards. The following occupations scored thusly:[10]

- Nurses: 85%
- Bankers: 28%
- Business executives: 20%
- Stockbrokers: 14%

- Insurance salespeople: 13%
- Car salespeople: 11%

The low scores for business professions in annual Gallup polls can be encapsulated in the well-known quote from philosopher Rene Descartes (1596–1650): "A man is incapable of comprehending any argument that interferes with his own revenue." The cultural perspective is that when increasing wealth conflicts with morality, the businessperson often chooses the action that increases wealth.

Even the most admired organizations can engage in ethical misconduct. In 2015 and 2016, Wells Fargo, one of the largest banks in the world, won many prestigious awards, including being the "25th Most Admired Company in the World," "Best Bank in the U.S.," and "Most Community-Minded Company." Yet dating back to 2011, approximately 5,300 employees created more than 1.5 million fraudulent checking and savings accounts and 500,000 fraudulent credit cards to meet the unachievable goal of eight accounts per customer.[11]

Profession and Industry Issues

Every profession and industry experiences unique and common ethical problems that must be managed. For instance, the economic system and interested parties rely on accountants to oversee and properly report financial statements to owners and other interested parties. Yet, despite many high-profile corporate scandals, 43% were "aware of a senior staff member making an unethical decision for a commercial result."[12] Some accounting ethical violations are even contradictory; sometimes accountants are pressured to overreport revenue to impress investors but underreport revenue to minimize taxable income.

Claiming unearned billable hours is an issue for lawyers and consultants, as well as accountants, in their dealings with clients. To maximize profits and obtain partner status, lawyers are rewarded for charging as many hours as possible to clients. This has led some lawyers to charge clients for services not rendered; to delay concluding a case; and performing meaningless, yet billable, services.[13] One egregious case involved a lawyer charging a client 3,500 billable hours for one year's work, which averages out to almost 10 hours a day, 7 days a week, every week of the year.[14]

Public relations and sales are two professions in which employees experience significant pressure to fudge the truth. A survey of 1,700 public relations executives found that 25% of them lied on the job, and 39% exaggerated the truth.[15] A survey of sales and marketing representatives revealed that 79% heard a salesperson make an unrealistic promise on a sales call, and 78% caught a competitor lying about his or her company's products or services.

The pharmaceutical industry walks a fine line between paying physicians to share their expertise and bribing physicians to use their products. In 2019, a federal jury found Insys Therapeutics's top executives guilty of racketeering in part for bribing doctors to prescribe their opioid products and misleading insurance companies and patients about product use.[16] The company agreed to pay a $225 million settlement. Two weeks later Insys Therapeutics declared bankruptcy.

Government agencies are not immune to unethical behavior. In the military, air force officers overseeing the launch of nuclear weapons were caught cheating on monthly proficiency exams, including tests assessing how to operate the deadly warheads.[17] Several officers were also alleged to be involved in illegal drug use. Some officers claimed these misbehaviors, along with sexual improprieties, fiscal mismanagement, drinking problems, and sleeping on the job, were rather routine.

Sexual harassment is experienced across professions and industries. For fiscal year 2018, the Equal Employment Opportunity Commission (EEOC) reported 13,055 sexual harassment submissions.[18] In a review of sexual harassment research, an EEOC task force found that 60% of women surveyed say they have experienced unwanted sexual attention, sexual coercion, sexually crude conduct, or sexist comments in the workplace. Ninety percent of employees who experience sexual harassment never file a formal complaint, and 75% never complain to their employer.[19] As for men, 27% were sexually harassed in a work setting.[20] Among industries, the highest sexual harassment occurrences are in food and service hospitality, and retail trade.

After one individual goes public about being sexually harassed, others tend to come forward. When a high-profile newswoman claimed Fox News chief executive officer (CEO) Roger Ailes had sexually harassed her, another 20 women came forward with similar claims.[21] In the initial case, Fox settled on behalf of Ailes for $20 million.

Many of the problems associated with managing morally imperfect employees and unethical behaviors are more, not less, prominent for small businesses. Just 4 years after new federal sentencing guidelines went into effect, 56% of the businesses prosecuted had fewer than 20 employees.[22]

Operation Areas

Every operational area struggles with ethical issues. Gender and racial discrimination can occur in dealings with suppliers, employees, customers, the government, or the public at any level of the organization—board of directors, executives, middle managers, staff, or production employees—and in any department (e.g., accounting, finance, human resources, or marketing). Maintaining confidentiality, for example, is an ethical issue for executives engaged in secretive high-level negotiations, for secretaries who maintain their schedules, and for janitors who clean their offices.

Middle-level managers must balance productivity demands from superiors and job and resource limitations. In one study, 25% of middle managers admitted to having written a fraudulent internal report.[23] Usually this is done because they were directed to do so by superiors or to avoid appearing incompetent. The pressure to accomplish "more with less" is particularly stressful during economic downturns, when layoff survivors are asked to pick up the responsibilities of those dismissed without reducing their other work tasks.

Lower down the hierarchy, the most economically vulnerable employees are low-wage workers. In 2019, the U.S. Department of Labor's Wage and Hour Division recovered a record $322 million to resolve wage and hour claims.[24] Wage theft refers to not paying employees a minimum wage, overtime, or as agreed upon. This disproportionately impacts low-wage workers. An estimated 2.4 million workers in the 10 most populous states experience wage theft. At the national level, this amounts to $15 billion in lost wages.[25]

Starbucks strives to be a leader among ethical organizations by recognizing and responding to ethical issues at work. Its core mission is to "inspire and nurture the human spirit" among employees, customers, suppliers, and community members. Starbucks' 2018 *Global Social Impact Report* summarizes its socially responsible outcomes in sustainability, strengthening communities, and creating opportunities, including its failures (see "Ethics in Action" for examples).[26]

ETHICS IN ACTION

STARBUCKS' 2018 *GLOBAL SOCIAL IMPACT REPORT*

Leading in Sustainability	
Goal	**Progress**
100% ethically sourced coffee	99% of coffee (650 million pounds) was ethically sourced through C.A.F.E. (Coffee and Farmer Equity) practices
Invest $50 million in farmer loans by 2020	Invested $21.7 million in farmer loans in 14 countries
Train 200,000 coffee farmers by 2020	Provided free training to 52,240 coffee farmers through nine farmer support centers
Eliminate single-use straws worldwide by 2020	Engineered a new strawless lid, now 70% fewer straws used
Invest in 100% renewable energy to power operations globally by 2020	77% green energy globally, 100% in 9,000 company stores in the United States, Canada, and United Kingdom
Strengthening Communities	
Goal	**Progress**
66,000 hours of community service	Partners contributed 78,000 hours
On May 29, 2019, Starbucks closed 8,000 U.S. stores for 175,000 partners to participate in antibias training	
Creating Opportunities	
Goal	**Progress**
Employ 100,000 opportunity youths (16- to 24-year-olds out of work and not in school) by 2020	Hired 71,145 opportunity youths
42% senior leaders (senior vice presidents and above) are women	42% of senior leaders are women
100% global gender pay equity in U.S. and company-owned markets	100% pay equity achieved in the United States, Canada, and China
Graduate 25,000 partners by 2025 through Starbucks College Achievement Plan	2,400 partners earned a bachelor's degree in 2014, and 12,000 partners currently enrolled

So, what is the extent of unethical behaviors in the workplace? Contrasting views are encapsulated in the following two quotes from frontline participants:

> "Morality is a job for priests, not P.R. men."
>
> —*Tim Bell, founder of the formerly successful, but now bankrupt, Bell Pottinger P.R. firm whose clients included dictators needing to improve their public images and whose employees had a "go anywhere, do anything" client ethos*[27]

> "We start with the shared understanding that the vast majority of businesses want to comply with the law, . . . But we also know that companies with even the best intentions can make mistakes or have a few bad actors."
>
> —*James McDonald, Director of Enforcement, Commodity Futures Training Commission*[28]

COSTS ASSOCIATED WITH UNETHICAL BEHAVIORS

Managers often underestimate the costs associated with unethical behaviors, which include legal costs, theft, recruitment and turnover costs, monitoring costs, reputation costs, and abusive treatment costs.

Legal Costs

Lawsuits are one of the most easily quantifiable costs associated with unethical behavior. Sometimes it can take years before the legal costs for unethical behavior end.

The worst financial crisis since the 1930s Great Depression began in 2007 as a result of excessive risk-taking in the subprime mortgage market. Lehman Brothers' bankruptcy created a ripple effect throughout the industry. In 2015, Standard & Poor's Financial Services (S&P) agreed to pay $1.5 billion to the Justice Department to resolve litigation for overvaluing high-risk securities.[29] By 2018, financial companies had paid a staggering $243 billion to settle mortgage-related lawsuits.[30] Bank of America settlements totaled $76 billion, followed by JPMorgan Chase at $44 billion and Citigroup at $19 billion.[31]

Johnson & Johnson sought to maximize opioid sales in Oklahoma by making 150,000 visits to state physicians from 2000 to 2011. In a state with 3.9 million people, Oklahoma physicians wrote 18 million prescriptions from 2015 to 2018.[32] This marketing plan contributed to 6,000 deaths from opioid overdose and thousands of addictions estimated to cost taxpayers and insurance companies $893 million a year over the next 20 years. As of 2019, state lawyers reached settlements of $572 million with Johnson & Johnson, $270 million with Purdue Pharma, and $85 million with Teva Pharmaceuticals. More than 500 lawsuits filed against opioid pharmaceuticals are still pending in other states. Purdue Pharma declared bankruptcy in 2019.

The mortgage and opioid settlements highlight the fallacy of employees claiming that a company should engage in morally questionable activities because "everyone else is doing it." In this case, everyone else was heavily fined. These unanticipated expenses do not appear in initial corporate budgeting projects the year the unethical and illegal actions occur. Instead, they accumulate over time as evidence is gathered and the legal process slowly evolves. Executive time, legal expertise, schedules, and funds must be diverted from previously planned activities to address the past mistakes.

Even if a product is legal, a company can be held liable for wrongdoing. Despite smoking being legal, tobacco companies and state attorneys general reached a $368.5 billion settlement in 1997 for lawsuits filed to pay Medicare costs for treating sick smokers.[33]

Lawsuits continue to be filed and settled every year. The Centers for Disease Control and Prevention reports that 7 million people worldwide, including 480,000 million in the United States, die from smoking.[34] Some cases take years of litigation with financial judgments unpredictable. In 2014, a jury awarded Judith Berger, a smoker since age 14, $27 million, $20 million of which was for punitive damages.[35] When Philip Morris won the appeal, the fine was reduced to $3.75 million for compensatory damages. But in 2019, a U.S. district judge reinstated the original $27 million award against Philip Morris.

Even safer legal means of nicotine intake, such as electronic cigarettes, are now subjected to lawsuits.

Employee Theft Costs

Theft represents a cost directly incurred by an organization for hiring untrustworthy employees. Employees can steal money, products, or time. Theft-related costs that are individually minimal—sending personal e-mails, conducting personal Internet searches, and making personal phone calls on company time—become substantial when aggregated across an entire workforce. For instance, the U.S. Department of Interior calculated that employee nonwork-related Internet usage cost taxpayers $2 million and a loss of 104,221 work hours annually.[36]

Nationwide, the U.S. Chamber of Commerce estimates that employee theft costs companies $20 billion to $40 billion a year. What percentage of employees are involved? Seventy-five percent, or three out of every four employees, have stolen from their employer at least once.[37] These thefts contribute up to 30% of business failures. The most common schemes are check tampering, payroll fraud, billing fraud, and expense padding.

The Annual Retail Theft Survey monitors theft at 20 large retail store chains representing 13,674 stores.[38] In 2018, 28,145 employees were caught stealing $38 million of product.

The Association of Certified Fraud Examiners (ACFE) estimate that companies lose 5% of their annual revenue to fraud.[39] ACFE analyzed 2,690 fraud cases their examiners investigated in 125 countries that took place in 2016 and 2017. Accumulated losses totaled $7.1 billion. Only 4% of the frauds were committed by someone with a prior fraud conviction. Executives were involved in 19% of the cases. Small businesses with fewer than 100 employees lost twice as much per fraud scheme than employers with more than 100 employees.

Monitoring Costs

Organizations incur monitoring costs when they employ, or do business with, unethical individuals. Once an employee has lied, he or she needs to be more closely monitored until trust is restored. Other monitoring costs include heightened supervision and increased scrutiny by clients, auditors, or government regulators. JPMorgan Chase spent more than $730 million over 3 years to hire 2,500 compliance employees and install other compliance features.[40]

In the construction industry, despite increased electronic surveillance, theft accounts for $1 billion in annual losses.[41] The most common stolen items are small tools, appliances, wood, and heavy machinery. As a result, time and effort must be diverted for close oversight to reduce the amount of theft. But that's not all construction managers must monitor. Construction contractors list the most common unethical misconduct as artificially high bids not intended to win the contract, bid cutting, and late and short payments.[42] The mistrust flows through the construction supply chain. Seventy-four percent of surveyed construction owners do not trust contractors, and 60% of contractors do not trust design professionals. These high levels of mistrust require extra scrutiny of key constituents.

Reputation Costs

An organization's reputation is one of its most important assets. Reputation accounts for 63% of a company's market value.[43] An organization's reputation can be severely damaged when lawsuits and accusations of unethical behavior appear in the media, or when customers register complaints with the Better Business Bureau.

Employees, customers, and investors consider organizational reputation when making employment and purchasing decisions. In one survey, even if unemployed, 69% of Americans would still not take a job offer from a company with an unethical reputation.[44]

The most direct reputation cost is lost business. In 2016, after Wells Fargo's fraudulent customer accounts surfaced, applications for credit cards and checking accounts nosedived, the Better Business Bureau dropped the bank's accreditation, and its own headquarter city of San Francisco suspended bond contracts.[45] Wells Fargo's stock price declined by 8%, the company was fined $185 million, and chairman and CEO John Stumpf was forced to retire, forfeiting $41 million in pay. Four years later the public was reminded of the scandal when Stumpf was personally fined $17.5 million and banned from the banking industry.

Organizations behaving unethically tend to underestimate the likelihood of being caught and the additional costs incurred. Many do get caught, resulting in damaged reputations and unbudgeted legal costs. One of many examples is the Volkswagen (VW) emissions scandal involving a new "clean diesel" environmentally friendly car, advertised as achieving high miles per gallon and low emissions while maintaining quick acceleration and other high-performance driving features. Engineers were unable to design the car to get both high-performance driving features and low emissions. Thus, they developed a software program that would turn on the pollution controls only when being tested by regulators.[46] From 2008 to 2015, the software, called a "defeat device," was secretly installed on about 12 million VW diesel cars sold worldwide, including 580,000 sold in the United States.

In 2014, a small team of university-based car emission test researchers in the United States detected the cheating. Volkswagen executives lied to government regulators investigating their findings. In the final "Statement of Facts" agreed to by VW, the problem was attributed company-wide, not just to a few renegade engineers. The illegal defeat device and its cover-up involved "high-ranking executives, compliance managers, engineers, quality control experts, software specialists, and in-house lawyers."[47] The unplanned fallout: VW's stock price declined 30% percent, and an onslaught of lawsuits ensued. VW paid more than $20 billion in fines and other costs as part of a settlement with the U.S. Department of Justice.[48] VW's CEO and other managers were forced to resign, some were indicted, and VW's reputation was severely tarnished.

Abusive Treatment Costs

Managers are mistaken if they think the costs noted earlier pertain only to the most egregious unethical behavior, such as customer fraud. Less egregious unethical behavior, such as abusive managers, can be very costly.

Abusive supervision affects approximately 13% of U.S. workers.[49] Costs in absenteeism, health care costs, and lost productivity have been estimated to be $23.8 billion annually. Employees managed by an abusive boss respond in a variety of ways that result in additional company costs. Some employees release the abuse they incur on others, such as colleagues, subordinates, or customers requesting help. Others "get even" by stealing money and products or work less diligently when the abusive supervisor is not closely monitoring their activities. Disgruntled current and former employees express their negative views on Internet blogs and community forums, and sabotage customer relations.[50]

Customers mistreated by a belligerent manager or employee also have a variety of ways to "get even." The most prevalent predictor of health care lawsuits is not the doctor's skills or training.[51] Instead, it is the quality of the relationship between doctor and patient. Potential litigants tend not to sue doctors they like.

In France, abusive management behaviors have led to a new classification of criminal behavior called "institutional moral harassment."[52] In the mid-2000s, Orange, a French telecommunications company, wanted to lay off 22,000 of its 120,000 workers due to a $50 billion debt but couldn't because of civil servant job protections. Upper-level managers decided to make the work environment miserable so workers would voluntarily leave. Unexpectedly, 35 overstressed workers committed suicide by hanging; jumping out of windows, off bridges, and in front of trains; and setting themselves on fire. One introspective technician was given a high-pressure sales job. Feeling humiliated after a 12-hour workday with one 30-minute break, he put on a company T-shirt and hanged himself.

The company's CEO, its second in command, and its human resources director were found guilty of institutional moral harassment, fined $16,000, and sentenced to 4 months in jail. The company was also fined the maximum allowed under current law, $83,000.

Recruitment and Turnover Costs

Unethical organizations incur greater costs recruiting employees, customers, suppliers, and investors, and must provide some premium to stakeholders to offset their ethical deficiencies. Once recruited, these relationships are often short-lived, resulting in high turnover among employees, customers, suppliers, and investors.

In 2018, the Work Institute estimated that 42 million people, 27% of employees, quit their jobs.[53] About 94% of surveyed Americans believe it is “critical” or “important” to work for an ethical company, and 33% left a company because they disagreed with its business ethics.[54] Managers and supervisors, along with nonmanagement employees, report leaving companies due to an organization’s ethical culture being weak.[55]

Some leaders possess a narrow “bottom-line mentality.” Followers of these leaders are likely to support unethical pro-leader behaviors that further the interests of leaders but violate ethical norms.[56] The ethical violations include falsifying numbers for their boss, covering up for misbehaviors, withholding negative information, and misleading others. These behaviors contribute to higher turnover.

Employee Benefits News reports that costs associated with turnover are equivalent to 33% of an employee’s annual salary.[57] These costs include the following:[58]

- Recruiting costs (recruiter fees, advertising)
- Interview costs (candidate travel, staff time)
- Postinterview costs (reference and screening checks, pre-employment skills tests)
- Employment costs (relocation expenses, signing bonuses)
- Training costs (training materials, staff time)

COMPETITIVE ADVANTAGES OF ETHICAL ORGANIZATIONS

Whereas unethical behavior has a negative impact on organizational operations, ethical and socially responsible behavior can have positive impacts on an organization’s bottom line. A growing amount of research on organizational performance has shifted the theoretical debate from choosing between ethical performance and financial performance to choosing ethical performance because of its contributions to financial performance.

A meta-analysis of studies examining the relationship between corporate social responsibility and corporate financial performance concluded that there was a positive causal relationship between the two, particularly in developed nations.[59] Similarly, the Great Place to Work Institute found that, compared with their peers, the 100 firms with the most ethical culture had nearly a 300% greater stock price growth.[60]

How much ethics enhances financial performance depends on a wide range of issues. For instance, bankruptcy of a major customer and other market factors can overwhelm the financial benefits associated with being ethical. The linkage between social performance and financial performance is multifaceted, as outlined in Table 1.2.

If you were a *job applicant*, would you rather work for an ethical or an unethical organization?

Ethical organizations, compared with unethical organizations, are more likely to attract high-quality employees, have higher levels of employee satisfaction, and have greater employee commitment to both the organization and product or service quality.[61] Ethical climate is related positively to job satisfaction and negatively to workplace isolation.