

Conducting Business Ethically and Responsibly

LEARNING OBJECTIVES

After reading this chapter you should be able to:

- 1 Explain how individuals develop their personal *codes of ethics* and why ethics are important in the workplace.
- 2 Distinguish *corporate social responsibility* from *ethics*, identify *organizational stakeholders*, and characterize social consciousness today.
- 3 Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.
- 4 Identify four general *approaches to social responsibility* and describe the four steps a firm must take to implement a *social responsibility program*.
- 5 Explain how issues of social responsibility and ethics affect small businesses.





Ethical Lapses

DURING the last decade there have been several high-profile examples of ethical lapses at business firms. These include a hacking scandal at the British tabloid *News of the World*, financial misrepresentation at Livent, and fraud at Cinar. Here are the stories.



News Corp.

News Corp. is a media giant headed by Rupert Murdoch. One of its more controversial publications was a tabloid called *News of the World*, which reported on all sorts of gossip about individuals. The tabloid was Britain's best-selling Sunday paper until it was revealed that some of its reporters had hacked into the cellphones of private citizens. The public was particularly outraged about the case of a 13-year-old girl who was kidnapped and murdered. While she was missing, a reporter at *News of the World* hacked into her voicemail and deleted messages. This led her parents to think that she was still alive. The cellphones of military personnel who had been killed in Iraq and Afghanistan were also hacked.

The scandal caused the market value of News Corp. to drop more than \$5 billion. As well, a planned takeover of television network BSKyB was abandoned. Many well-known companies (Ford, Lloyd's of London, Cadbury, and Vauxhall) announced that they were pulling their advertising from *News of the World*. Two

top executives also resigned: Rebekah Brooks (CEO of News International) and Les Hinton (CEO of News Corp.'s Dow Jones & Co., which publishes *The Wall Street Journal*). Shortly after the scandal broke, it was announced that *News of the World* would cease publication.

When Rupert Murdoch and his son James (the CEO) appeared before the Culture, Media, and Sport Committee of the British Parliament, they both apologized for what had happened, but denied knowledge of the hacking. Rupert Murdoch said that his company was so big that he couldn't know about all the details of what was going on. He said that he wasn't much involved in the paper's management because it was such a small part of his media empire. He admitted that he had not looked closely enough into the activities of some of the paper's staff, but he denied responsibility for what had happened because subordinates that he trusted had lied to him. The issue of how much responsibility top managers have for the actions of their subordinates was also debated in the press, with some commentators defending Murdoch and others condemning him.

In the aftermath of the scandal, allegations were made that Andy Coulson, an editor at the tabloid when the hacking took place, knew that illegal payments of CDN\$185 000 had been made to police officers who provided information to reporters for stories they were writing. The story then took on strong political overtones, since Coulson had been appointed as the Prime Minister's communications director after he resigned from the paper. In January 2012, News Corp. settled most of the civil lawsuits it was facing by paying damages to individuals whose phones were hacked. The company agreed to pay 3 million pounds for

hacking the phone of the kidnapped teenager; actor Jude Law received just over \$200 000.

Cinar

In March 2011, four individuals were arrested and charged with multiple counts of fraud and forgery as part of a multi-million dollar scandal at Cinar Corp., the Montreal-based animation company. The individuals were Ronald Weinberg (former co-CEO of Cinar), Hasanaim Panju (chief financial officer), Lino Matteo (former president of Mount Real, who was accused of using his company to cover up the scam), and John Xanthoudakis (the alleged mastermind behind the scheme and former CEO of Norshield Financial Group, which went bankrupt in 2005). The co-CEO of Cinar, Micheline Charest (wife of Ronald Weinberg), died in 2004. As of mid-2012, the trial had not yet taken place.

The alleged frauds took place in 2000. At that time, Cinar was an immensely successful producer of popular children's shows like *Arthur*, *Caillou*, *The Adventures of Paddington Bear*, and *Wimzie's House*. The key drivers in the company were Charest and Weinberg, who tirelessly promoted their company to the media and to financial markets. But in March 2000, they both resigned as co-chief executives of the company amid allegations that (1) over \$100 million had been invested without proper approval from Cinar's board of directors; (2) Cinar had fraudulently obtained Canadian tax credits by putting the names of Canadians on television scripts actually written by Americans; and (3) Cinar had breached securities rules with its financial statements and other disclosure documents. These allegations caused the company's stock to drop

sharply in value, and Cinar was eventually delisted from both NASDAQ and the Toronto Stock Exchange. In 2002, Charest and Weinberg were fined \$1 million each by the Quebec Securities Commission (QSC). They were also required to resign from the board of directors, and were banned from holding directorships or voting for directors of publicly held companies in Canada. It was assumed that the QSC ruling would prevent Charest and Weinberg from influencing who would be appointed to Cinar's board of directors. But the QSC settlement did allow them to appoint a trustee who could nominate or vote for directors, and at Cinar's next annual shareholders' meeting, trustee Robert Despres used his new-found voting clout to install directors he wanted instead of the company's proposed slate. Despres claimed that he did not represent Charest and Weinberg, and was simply interested in getting a board of directors in place that would move the company forward and increase shareholder value.

When problems originally arose at Cinar, Richard Finley, chairman of the Centre for Corporate and Public Governance, offered the view that Cinar's top management and board structure were rather peculiar and likely contributed to Cinar's difficulties. The husband-wife team of Charest and Weinberg functioned as co-CEOs and both reported to the board. The corporate governance guidelines of the Toronto Stock Exchange call for a non-executive and independent director as chairperson of the board.

The company was purchased in 2004 by a consortium headed by Nelvana co-founder Michael Hirsh and renamed Cookie Jar Entertainment.

Livent

Livent Inc., a live theatre company with outlets in Toronto, Vancouver, Chicago, and New York, was founded by Garth Drabinsky and Myron Gottlieb. In 1998, questions were raised about Livent's finances by new owners who had bought into the company. Shortly thereafter, Drabinsky and Gottlieb were fired. They were eventually charged with producing false financial statements to make the company look more profitable than it actually was. After a long delay, their trial finally started in 2008.

During the trial, prosecutors called several witnesses who admitted that they had participated in the financial manipulations, but said they had done so at the direction of Drabinsky and Gottlieb. Drabinsky and Gottlieb denied any wrongdoing and claimed that the financial manipulations were carried out by subordinates without their knowledge. Their attorneys repeatedly attacked the credibility of the witnesses and argued that accounting staff had circumvented the accounting controls that Drabinsky had put in place. The defence presented no witnesses and Drabinsky and Gottlieb did not testify.

In 2009, Drabinsky and Gottlieb were found guilty of fraud and forgery. Drabinsky was sentenced to seven years in jail and Gottlieb to six years. In 2011, the Ontario Court of Appeals reduced their sentences by two years each. The Institute of Chartered Accountants of Ontario also found three senior Deloitte & Touche LLP auditors guilty of making errors during an audit of Livent's financial statements. The three were fined \$100 000 each.

Sources: ; Paul Sonne and Cassell Bryan-Low, "News Corp. Settles Phone-Hacking Cases," *The Wall Street Journal*, January 20, 2012, B4; Kit Cheliel, "Lawsuits Against News Corp. Escalate," *National Post*, October 5, 2011, FP12; "Livent Founders Get Reduced Sentences as Court Upholds Fraud Convictions," *Winnipeg Free Press*, September 14, 2011, D2; Terence Corcoran, "Unfounded Attack on Murdoch," *National Post*, July 23, 2011, p. FP19; Mark Hosenball, "Coulson Tied to Payouts, Insider Says; Emails Suggest Ex-Editor Knew of Police Bribes," *National Post*, July 22, 2011, p. A10; James Kirkup, "'Lost Sight' of Paper: Murdoch; 'Clearly' Lied to," *National Post*, July 20, 2011, p. A10; Keith Weir, "Murdoch Apologizes, Top Aides Quit; 'Deeply Sad Day'; Rebekah Brooks, Dow Jones CEO Both Resign," *National Post*, July 16, 2011, p. A18; Steve Ladurantaye, "A Kingmaker in Damage Control Mode," *The Globe and Mail*, July 16, 2011, p. A3; Elizabeth Renzetti, "Who Will Mourn News of the World? The Taxi Drivers, Hairdressers and Café Owners," *The Globe and Mail*, July 9, 2011, p. F3; Eric Reguly, "Hacking Scandal Kills U.K. Tabloid," *The Globe and Mail*, July 8, 2011, p. A1; Susan

Krashinsky, "Bad News for News of the World," *The Globe and Mail*, July 7, 2011, p. A11; Kate Holton and Jodie Ginsberg, "Murdoch Will Co-operate with Hacking Inquiry; Faces boycotts," *National Post*, July 7, 2011, p. A13; "Cinar Corp. Reaches Agreement with Company founder to Settle Lawsuit," www.canada.com/story_print.html?id=8e57cda7--91f-48f2-aade-7574efc41d0b&sp, accessed May 18, 2011; "Cookie Jar Group," www.en.wikipedia.org/wiki/Cookie_Jar_Group, accessed May 18, 2011; "Ex-Cinar CEO Hasanain Panju Arrested," www.hollywoodreporter.com/news/cinar-ceo-hasanain-panju-arrested-163383, accessed May 18, 2011; Rheal Seguin, "Suspected Player in Alleged Cinar Fraud Arrested," *The Globe and Mail*, March 16, 2011, p. B9; Jacquie McNish, "Convictions Seen as Much-Needed Regulatory Win," *The Globe and Mail*, March 26, 2009, p. B4; Janet McFarland, "ICAO Appeal Panel Upholds Deloitte Decision," *The Globe and Mail*, February 19, 2009, p. B9; Janet McFarland, "Ex-Livent Official Tells of 'Absurd' Plan," *The Globe and Mail*, September 3, 2008, p. B5; Janet McFarland, "Livent Staff Dodged Drabinsky's Controls, Lawyer Says," *The Globe and Mail*, July 18, 2008, p. B2; Janet McFarland, "Ad Firms Helped Livent, Ex-Official Says," *The Globe and Mail*, July 16, 2008, p. B7; Janet McFarland, "All His Time Spent on Fraud: Ex-Livent Official," *The Globe and Mail*, July 15, 2008, p. B4; Allan Swift, "Cinar Chairman's Motives Questioned," *Winnipeg Free Press*, August 22, 2003, p. B6; also Bertrand Marotte, "New Cinar Head Planning an Encore for Company," *The Globe and Mail*, April 10, 2003, p. B4; also Bertrand Marotte, "Cinar Founders' Trustee Stages Coup," *The Globe and Mail*, April 30, 2002, pp. B1, B10; also Bertrand Marotte, "Cinar Settlement \$2 Million," *The Globe and Mail*, March 16, 2002, pp. B1-B2; also Susanne Craig, John Partridge, and Bertrand Marotte, "Cinar Co-Founder Okayed Investment," *The Globe and Mail*, March 22, 2000, pp. B1, B4; also Susanne Craig, "Cinar Co-Founder Pushed Out," *The Globe and Mail*, March 15, 2000, pp. B1, B9; also Susanne Craig and Bertrand Marotte, "Cinar to Take Hit Following Probe," *The Globe and Mail*, February 21, 2000, pp. B1, B3. ♦

HOW WILL THIS HELP ME?

There is a growing dilemma in the business world today involving the economic imperatives (real or imagined) facing managers and the pressure to function as good citizens. By understanding the material in this chapter, you'll be better able to assess the ethical and social

responsibility issues that you will face as an *employee* and as a boss or business *owner*. It will also help you understand the ethical and social responsibility actions of businesses you deal with as a consumer and as an *investor*.

Ethics in the Workplace

Ethics are beliefs about what is right and wrong or good and bad. An individual's personal values and morals, as well as the social context in which they occur, determine whether a particular behaviour is perceived as ethical or unethical. **Ethical behaviour** is behaviour that conforms to individual beliefs and social norms about what is right and good. **Unethical behaviour** is behaviour that individual beliefs and social norms define as wrong and bad. **Business ethics** refers to ethical or unethical behaviour by a manager or employee of an organization.

Individual Ethics

Because ethics are based on both individual beliefs and social concepts, they vary from person to person, from situation to situation, and from culture to culture. But there are some commonalities. For example, most societies view stealing as wrong. But what if you happen to see someone drop a \$20 bill in a store? Most people would probably say that it would be ethical to return it to the owner, but some might think it is OK to keep it. And there will be even less agreement if you find \$20 and don't know who dropped it. Should you turn it in to the lost-and-found department? Or, since the rightful owner isn't likely to claim it, can you just keep it? The boxed insert entitled "Ethics in the YouTube Age" describes another common ethical issue.

Making ethical judgments is complicated by the fact that practices that are legal in one country may not be legal in another. For example, selling Nazi memorabilia online is legal in the U.S., but not in Germany. There is also the complication caused by the difference between *unethical* and *illegal* behaviour. If something is illegal, most people would argue that it is also unethical. But behaviour that is legal may be either ethical or unethical. Consider the case of Netsweeper, a Canadian company that sells web-filtering products that block out pornography and computer viruses. That sounds good, but what if the products are used by repressive governments to block out information they don't want their citizens to see (e.g., information on human rights)? While it is perfectly legal for Netsweeper to sell the software, critics argue that the sales are unethical because the company knows that its products can be misused.¹

In some cultures, ethically ambiguous practices are hallmarks of business activity. Brazilians, for example, apply the philosophy of *jeitinho*—meaning "to find a way"—by using personal connections, bending the rules, or making a "contribution."² For example, if you need to get an official document you might start out determined to take all the proper bureaucratic steps to get it. However, when you find yourself in a complex maze of rules and regulations and think you'll never get your document, you may resort to *jeitinho* to get the job done.

Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.

LO1

ethics Individual standards or moral values regarding what is right and wrong or good and bad.

ethical behaviour Behaviour that conforms to individual beliefs and social norms about what is right and good.

unethical behaviour Behaviour that individual beliefs and social norms define as wrong and bad.

business ethics Ethical or unethical behaviour by a manager or employee of an organization.

Individual Values and Codes

The ethical views of individuals in a business—managers, employees, agents, and other legal representatives—are determined by a combination of factors. We start to form ethical standards as children in response to our perceptions of the behaviour of parents and other adults. Soon we enter school, where peers and the entertainment media influence us, and as we grow into adulthood, experience shapes our lives and contributes to our ethical beliefs and our behaviour. We also develop values and morals that contribute to ethical standards. If you put financial gain at the top of your priority list, you may develop a code of ethics that supports the pursuit of material comfort. If you set family and friends as a priority, you'll no doubt adopt different standards.

EBUSINESS + SOCIAL MEDIA SOLUTIONS



Ethics in the YouTube Age

Technology has changed our lives in positive ways, but it has also made questionable practices easier to commit. YouTube, for example, is a great source of entertainment. Many of you spend considerable time watching comedians, actors, and consumer-generated videos. YouTube makes an effort to remove unauthorized copyright material, and even warns users that their account may be closed if they ignore such laws. YouTube also offers an authorized music library that enables content providers to insert music selections without fear of legal action. However, as you know, there is plenty of material on YouTube that does not meet legal requirements.

Most people consider themselves to be ethical individuals. Students, for example, are often very critical of unethical corporations that act solely to satisfy their own needs. However, ethical issues cannot simply be looked at through a personal or situation-specific lens. Do you consider yourself to be an ethical person? What would you tell a friend if you saw him or her shoplifting? What would you do if you caught a co-worker stealing from your company? You may have strong, clear opinions on those issues, but how many songs and movies have you illegally downloaded?

Gary Fung, the founder of the Vancouver-based internet torrent site isoHunt, believes that illegal downloading is a legitimate right. He turned this belief into a successful business with more than 100 million users who download TV shows, films, etc. Fung has clearly benefited from the work of others, without paying for the content, and yet he generates millions in advertising revenue for his website. Mr. Fung is now facing a US\$150 million fine for copyright infringement and damages. His success caught the attention of the Motion Picture Association of America (MPAA), which has also pursued similar sites, for instance, TorrentSpy (US\$111 million fine). isoHunt may ultimately share the fate of Napster and Kazaa.

In 2012, the U.S. and Canadian governments were both actively pursuing new tougher legislation to deal with the

problem. SOPA stands for the Stop Online Piracy Act, which is being proposed in the U.S. If it becomes law, you might see popular offending domain names deleted or restricted. The government could force search sites like Google and Bing to remove them from their search engines. They could also force PayPal and Visa to stop doing business with sites that are sued by legitimate rights holders. In essence, they would have the power to shut down all the revenue sources for illegal sites. This legal battlefield may change but the ethical debate remains.

A popular argument that is often used to justify illegal downloading activity is that there are many wealthy artists who earn millions of dollars. However, for every successful star there are thousands of struggling musicians, actors, and artists trying to earn a living. They are not overnight successes. Perhaps your favourite song would have never been written if that artist was not able to make a basic living (from royalties) until that one big hit. Sites like isoHunt are far more likely to have an impact on an aspiring artist than they are on someone like Lady Gaga or Will Smith. So where do you stand?¹

Critical Thinking Questions

1. Do you believe that multimillion-dollar fines on isoHunt and TorrentSpy are fair?
2. What do you think of the measures that are being proposed under the SOPA legislation?
3. Do you believe ethics are a black-and-white issue or do you subscribe to a grey zone?

Sources: Ivor Tossell, "Legislation Threatens to Turn Internet into an All-You-Can-Sue Buffet," *The Globe and Mail*, December 28, 2011. Jeff Grey, "The Case Against isoHunt," *The Globe and Mail*, March 1, 2011; Erin Anderssen, "Daddy, What Are We Downloading Today?" *The Globe and Mail*, May 17, 2010, B1, B3; Robert Thompson, "A Crushing Blow for Web Pirates," *Canadian Business*, March 1, 2010, 17; YouTube website, www.youtube.com/t/howto_copyright, accessed June 1, 2010.



Because ethics are both personally and culturally defined, differences of opinion can arise as to what is ethical or unethical. For example, many people who would never think of stealing a candy bar from a grocery store routinely take home pens and pads of paper from their offices. Other people who view themselves as law-abiding citizens have no qualms about using radar detectors to avoid speeding tickets. In each of the situations, people will choose different sides of the issue and argue that their actions are ethical.

Managerial Ethics

Managerial ethics are the standards of behaviour that guide managers in their work.³ Although ethics can affect managerial work in any number of ways, it's helpful to classify behaviour in terms of three broad categories.

managerial ethics Standards of behaviour that guide individual managers in their work.

Behaviour Toward Employees

There are important questions with regard to issues like hiring and firing, wages and working conditions, and privacy. In Canada, ethical and legal guidelines state that hiring and firing decisions should be based solely on the ability to perform a job. A manager who discriminates against any ethnic minority in hiring therefore exhibits both unethical and illegal behaviour. But what about the manager who hires a friend or relative when someone else might be more qualified? Such decisions may not be illegal, but in Canada they may be seen as objectionable on ethical grounds.

conflict of interest Occurs when an activity benefits an individual at the expense of the employer.

Wages and working conditions are also areas for debate. Consider a manager who pays a worker less than what is deserved because she knows that the employee can't afford to quit. While some people will see that behaviour as unethical, others will see it simply as smart business.

Protecting the privacy of employees is yet another area where there are ethical implications. In Canada, the Personal Information Protection and Electronic Documents Act (PIPEDA) requires organizations to obtain consent before they collect, use, or disclose information about individuals. Many people see these guidelines are necessary and useful, but others view them as yet another example of bureaucratic red tape.

Behaviour Toward the Organization

Ethical issues also arise with respect to employee behaviour toward employers. A **conflict of interest** occurs when an activity benefits an employee at the expense of the employer. For example, suppose the shoe buyer for a large department store chain accepts a free vacation from a shoe manufacturer. If the manufacturer then asks the buyer to increase

the size of an order, the buyer may feel an obligation to do so. The buyer might also conclude that more large orders will result in another vacation next year. Most companies have policies that forbid buyers from accepting gifts from suppliers. Businesses in highly competitive industries—software or fashion apparel, for example—have safeguards against designers selling company secrets to competitors. Relatively common problems in the general area of honesty include such behaviour as stealing supplies, padding expense accounts, and using a business phone to make personal long-distance calls. Most employees are honest, but organizations must be vigilant.

Behaviour Toward Other Economic Entities

Ethical disputes may often arise in the relationship between the firm and its customers, competitors, stockholders, suppliers, dealers, and unions. In 2012, for example, Caterpillar Inc. demanded that union workers at its London, Ontario factory take a 50 percent wage cut in order to help the company be more cost effective in its operations. When the union refused, the company closed the plant and moved the production to the U.S. Is this unethical behaviour, or is it just necessary business practice? Businesses in the pharmaceuticals industry are often criticized because of the high prices of drugs. The companies argue that high prices are needed to cover the cost of developing new drugs, but critics argue that the companies are engaging in *price gouging* (charging unreasonably high prices). Finding the proper balance in situations like this is difficult.⁴

After a WestJet executive accessed Air Canada's confidential reservations database, WestJet eventually admitted its actions were unethical and paid Air Canada \$5 million.⁵ Most people would probably see the WestJet incident as a fairly clear case of unethical behaviour. But what if a manager is given confidential information by an unhappy former employee of a competitor who wants to get revenge on his former employer? Is it acceptable in that case for the manager to use the information? Some people would say it's still unethical, but others might argue that since the manager didn't go looking for the information, it's acceptable to use it.⁶

Difficulties also arise because business practices vary globally. In some countries, bribes are a normal part of doing business, but in Canada, bribes are seen as clearly unethical and illegal. In 2011, Calgary-based Niko Resources was fined \$9.5 million for bribing a Bangladeshi government official.⁷ In 2012, Walmart appointed a global officer to oversee compliance with U.S. bribery laws after it became clear that its Mexican operation had paid bribes in order to get good store sites.⁸ In spite of Canada's condemnation of bribery, the Organization for Economic Cooperation and Development (OECD) has expressed concerns about loopholes in Canada's bribery laws and the lack of enforcement of bribery penalties.⁹ (See Chapter 5 for more information about the issue of bribery.)



The intense competition between Air Canada and WestJet motivated a WestJet executive to access Air Canada's confidential reservations database in the hope of gaining a competitive edge for WestJet.

Assessing Ethical Behaviour

Given the difficulties of distinguishing ethical and unethical behaviour, how can we decide whether a particular action or decision is ethical?¹⁰ A three-step model can be used for applying ethical judgments to situations that may arise during the course of business activities:

1. Gather the relevant factual information.
2. Determine the most appropriate moral values.
3. Make an ethical judgment based on the rightness or wrongness of the proposed activity or policy.

Let's see how this process might work for a common dilemma faced by managers involving their expense accounts. Companies routinely provide managers with accounts to cover work-related expenses when they are travelling on company business and/or entertaining clients for business purposes. Common examples of such expenses include hotel bills, meals, rental cars, and so forth. Employees are expected to claim only those expenses that are accurate and work related. If a manager takes a client to dinner while travelling on business and spends \$100, submitting a receipt for that dinner and expecting to be reimbursed for \$100 is clearly appropriate. Suppose, however, that the manager also has a \$100 dinner the next night in that same city with a good friend for purely social purposes. Submitting that receipt for full reimbursement would be seen by most managers as unethical (although a few might rationalize that it is acceptable because they are underpaid and this is a way to increase their pay).

Other principles that come into play in a case like this include various ethical norms. Consider four such norms and the issues that they raise:

- Utility:* Does the act optimize what is best for those who are affected by it?
- Rights:* Does it respect the rights of the individuals involved?
- Justice:* Is it consistent with what we regard as fair?
- Caring:* Is it consistent with people's responsibilities to each other?

Figure 3.1 incorporates the consideration of these ethical norms.

Now, let's return to the case of the inflated expense account. The utility norm would acknowledge that the manager benefits from padding an expense account, but that others (co-workers and owners) do not. Likewise, most people would agree that this behaviour does not respect the rights of others. Moreover, it is clearly unfair and compromises the manager's responsibilities to others. This particular act, then, appears to be clearly unethical.

Figure 3.1 also provides mechanisms for considering unique circumstances—those that apply only in certain limited situations. Suppose, for example, that the manager loses the receipt for the legitimate dinner but retains the receipt for the social dinner. Would it be ethical to submit the illegitimate receipt because the manager is only doing so to be reimbursed for what he or she is entitled to? Or, is submitting the other receipt unethical under any circumstance? Changes in the situation can obviously make issues more or less clear-cut.

When judging the ethics of a given behaviour, one of the simplest tests to use is the so-called "newspaper test." This means asking yourself this question: If I were to make a decision on an ethical issue and then read about it on the front page of tomorrow's paper, how would I feel? If you would feel embarrassed, you are very likely violating ethical standards and should make a different decision.

Company Practices and Business Ethics

Technological innovations have created all sorts of new ethical dilemmas: cloning, satellite reconnaissance, email snooping, and bioengineered foods, to name just a few. For every innovation that promises convenience or safety, there seems to be a related ethical

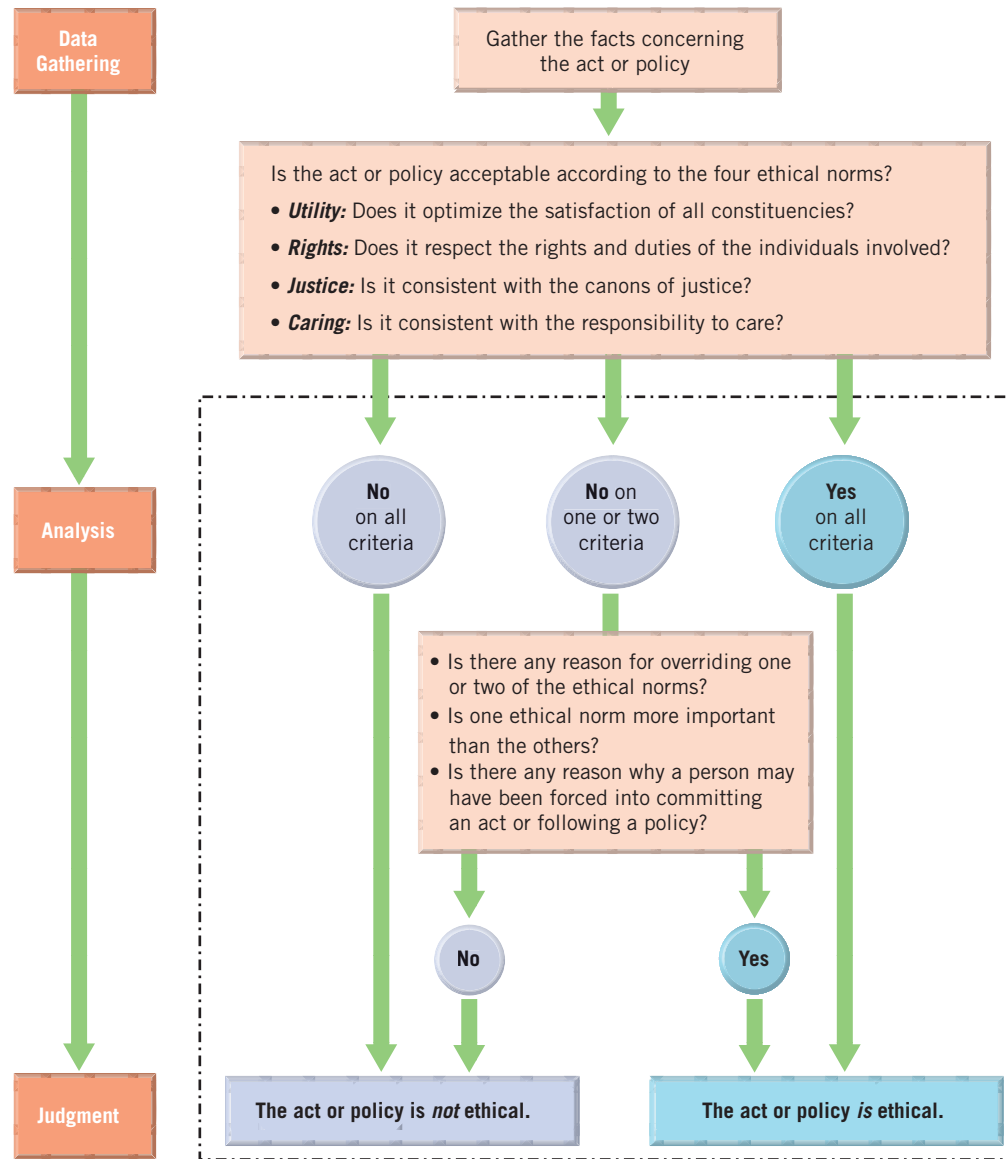


FIGURE 3.1
Expanded model of ethical judgment making.

issue. The internet and email, for example, are convenient and efficient, but they present business people with a variety of ethics-related problems. For example, a manager in one company sent false emails to his workers, pretending to be a recruiter from a competing firm. Any employees who responded to the emails were skipped for promotion. Electronic communication also makes it possible to run swindles with greater efficiency than ever before. A Ponzi scheme, for example, promises investors large returns on their money, but the money taken in by those running the scheme is not typically invested. Instead, money contributed by later investors is used to pay off early investors. In 2010, investment adviser Earl Jones pleaded guilty to running a Ponzi scheme that defrauded investors of over \$50 million. He was sentenced to 11 years in prison.¹¹

If a company wants to promote ethical behaviour among its employees, the single most effective step it can take is to demonstrate top management commitment to high ethical standards. When food products made by Maple Leaf Foods were found to be contaminated with listeria, the company took quick action to manage the crisis (see Chapter 6 for more details).¹² Two specific actions that can be taken to formalize commitment to a high ethical standard are adopting written codes and instituting ethics programs.

Adopting Written Codes

Many companies have adopted written **codes of ethics** that formally acknowledge their intent to do business in an ethical manner. Most codes of ethics are designed to perform one or more of the following functions:

code of ethics Formal, written acknowledgment of a company's intent to do business in an ethical manner.

- Increase public confidence in a firm or industry.
- Stem the tide of government regulation—that is, aid in self-regulation.
- Improve internal operations by providing consistent standards of both ethical and legal conduct.
- Help managers respond to problems that arise as a result of unethical or illegal behaviour.

Figure 3.2 shows the code of ethics adopted by Mountain Equipment Co-op.

Figure 3.3 illustrates the central role that corporate ethics and values should play in corporate policy. Strategies and practices can change frequently, and objectives can change occasionally, but an organization's core principles and values should remain steadfast.

Two-thirds of Canada's largest corporations have codes of ethics (90 percent of large U.S. firms do). More and more regulatory and professional associations in Canada are recommending that corporations adopt codes of ethics. The Canada Deposit Insurance Corp., for example, requires that all deposit-taking institutions have a code of conduct that is periodically reviewed and ratified by the board of directors. The Canadian Competition Bureau, the Canadian Institute of Chartered Accountants, and the Ontario Human Rights Commission are all pushing for the adoption of codes of ethics by corporations.¹³ Many Canadian and U.S. firms are also adding a position called ethics director or ethics officer.

Instituting Ethics Programs

Can business ethics be “taught,” either in the workplace or in schools? Business schools have become important players in the debate about ethics education, but most analysts agree that companies must take the lead in educating employees about ethics. In fact, more and more firms are doing so. Imperial Oil, for example, conducts workshops that help employees put Imperial's ethics statement into practice. But some firms struggle with ethical dilemmas, particularly those operating in the international business scene. In 2011, for example, allegations were made that some products sold by Victoria's Secret contained cotton that had been produced using child

FIGURE 3.2

Mountain Equipment Co-op's statements of purpose, vision, mission, and values make up their code of ethics.



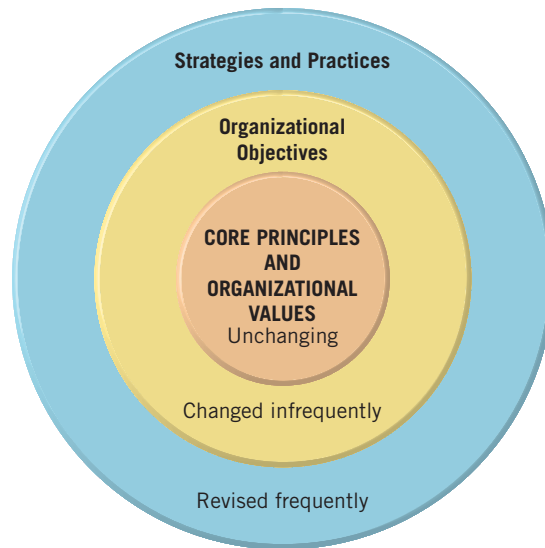


FIGURE 3.3

Core principles and organizational values.

labour.¹⁴ A few years earlier, a report on Nike’s manufacturing partners in Asia called their practices just short of slave labour. Nike responded to the report by acknowledging its mistakes and made a commitment to improve working conditions.¹⁵

Social Responsibility

L02 Distinguish corporate social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.

corporate social responsibility (CSR) Refers to the way in which a business tries to balance its commitments to organizational stakeholders.

organizational stakeholders that are directly affected by the practices of an organization and that therefore have a stake in its performance.

Corporate social responsibility (CSR) refers to the way in which a business tries to balance its commitments to **organizational stakeholders**—those groups, individuals, and organizations that are directly affected by the practices of an organization and that therefore have a stake in its performance.¹⁶ Most companies that strive to be socially responsible concentrate on the five stakeholder groups shown in Figure 3.4. They may also select other stakeholders that are particularly important to their particular organization and try to address their needs and expectations as well. As companies place increasing emphasis on their social responsibility to stakeholders, there has been a move to go beyond traditional *financial* measures of return on investment. A new measure—called the Social Return on Investment (SROI)—has been developed to help companies understand, manage, and communicate the *social* value of their activities for stakeholders.¹⁷

While everyone seems to accept the idea that attention must be paid to these organizational stakeholders, it is difficult to know which ones should be given the most attention. One view, called *managerial capitalism*, is that a company’s only responsibility is to make as much money as possible for its shareholders, as long as the company doesn’t break any laws. This view has been strongly challenged by an opposing view that says that companies must be responsible to a variety of stakeholders, including *customers, employees, investors, suppliers*, and the *local communities* in which they do business. Opponents of CSR claim that it is being imposed on businesses by a coalition of environmentalists, while supporters of CSR claim that companies have become more interested in CSR because that is what consumers prefer.¹⁸

Mountain Equipment Co-op (MEC) is an example of an organization with a strong sense of social responsibility. The company does not try to maximize shareholder wealth, but rather seeks a balance between financial and social/environmental goals. To demonstrate its concern for social responsibility, MEC provides a safe and healthy workplace for employees, audits suppliers who produce the products it sells, minimizes the negative impact of manufacturing and packaging on the environment, ensures that waste is disposed of in an environmentally responsible manner, treats workers with dignity, pays workers fairly, and emphasizes energy efficiency, pollution control, and recycling potential in MEC buildings.¹⁹

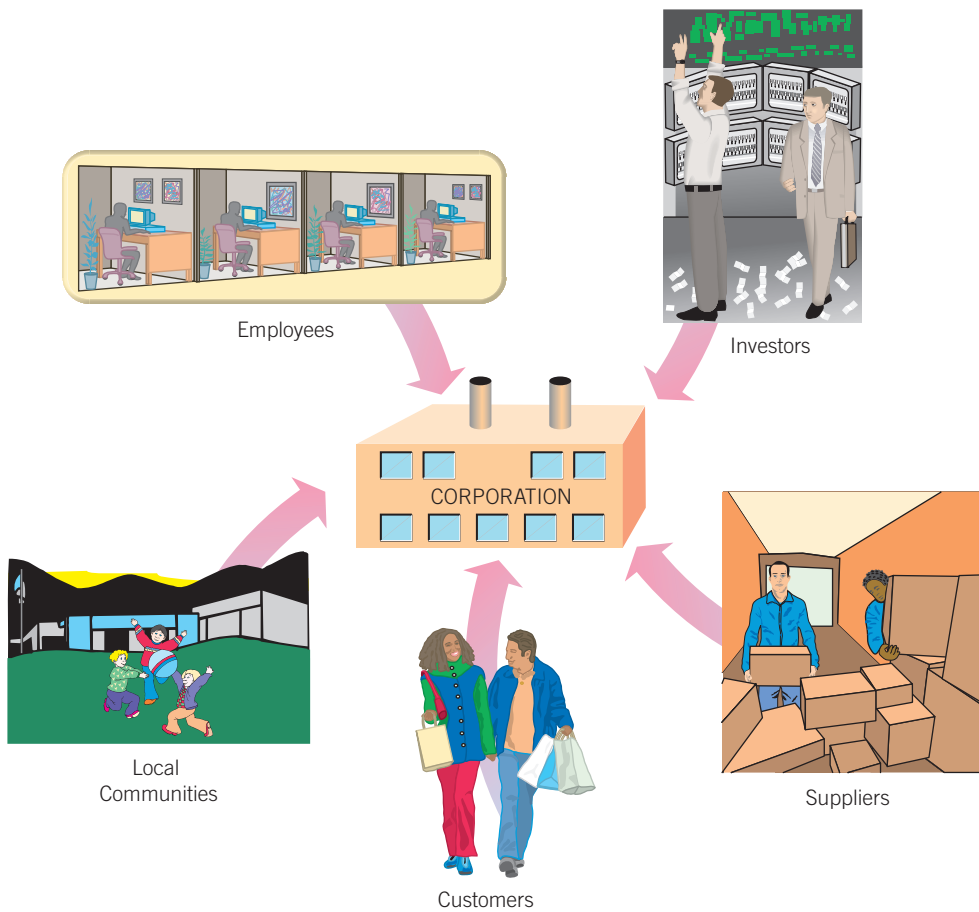


FIGURE 3.4

Major corporate stakeholders.



Starbucks is helping local farmers gain access to credit, working to develop and maintain sustainability of the coffee crop, and building farmer support centres in Costa Rica, Ethiopia, and Rwanda to provide local farmers with agricultural and technical education and support.

Another example of CSR in action is the **fair trade** movement, which developed because of concerns that workers in developing countries who produce commodities like coffee were not receiving fair payment for their products. Companies in developed countries who are concerned about this problem work with non-profit organizations

L03 Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.

like the Fairtrade Foundation and the Rainforest Alliance. Those non-profit organizations certify that farming cooperatives are paying workers fairly and not damaging the environment. More than 5000 companies—including Kraft Foods, Avon, and Starbucks—sell products with a Fairtrade or Rainforest Alliance logo on them.²⁰

In defining their sense of social responsibility, most firms must confront four areas of concern: *responsibilities toward the environment, customers, employees, and investors.*

Responsibility Toward the Environment

One critical area of social responsibility involves how the business relates to its physical environment. Controlling **pollution**—the injection of harmful substances into the environment—is a significant challenge for contemporary business. Air,

pollution The injection of harmful substances into the environment.

GREENING BUSINESS

Some Frustrations in the Green Movement

Consumers who are interested in buying products that are environmentally friendly face two key problems. The first problem is that companies often make misleading claims about the green characteristics of their products. A study of 5296 products by TerraChoice, an environmental marketing company, found that there was at least one misleading green claim on 95.6 percent of the products they studied. The study also found that 100 percent of toy manufacturers and 99.2 percent of baby-product makers were guilty of “greenwashing” (misleading consumers about the environmental benefits of a product). Having a product certified by a recognized, independent third party reduced the incidence of greenwashing; about one-third of certified products are free of greenwashing, compared to only about four percent of non-certified products. Unfortunately, fake certifications are readily available on the internet. In spite of these concerns, some progress is being made. For example, there are more and more products with accurate green claims. TerraChoice identified several green “sins,” including (1) making an environmentally friendly claim but providing no proof, (2) making vague claims (e.g., saying that a product is “all natural”), (3) making a green claim for a product that is inherently harmful (e.g., cigarettes), and (4) emphasizing a product's positive attributes on a relatively unimportant environmental issue and downplaying its negative characteristics on a far more important environmental issue.

The second problem facing consumers is that green products can be very expensive. Government is subsidizing the development of electric and hybrid automobiles, but cars like Chevy's hybrid rechargeable Volt (named Car of the Year by *Motor Trend*), Nissan's all-electric Leaf, and Ford's all-electric Focus are expensive enough that many people cannot afford them. A hybrid car like the Prius, for example, costs about 30 percent more than an equivalent gasoline-powered car, and battery-powered cars cost 50 to 100 percent more. Even with fuel savings, it would take more than 10 years to recover the extra purchase price of a

car like the Ford Fiesta. Gasoline-powered automobiles also outperform electric and hybrid cars in categories that are important to consumers (cost, driving range, and power). In 2010, the consulting firm J.D. Power produced a report entitled “Drive Green 2020: More Hope Than Reality,” which noted that hybrid or battery vehicles constituted only 2.2 percent of global vehicle sales in 2010, and that even with healthy growth during the next few years, they will represent just over 7 percent of all vehicles sold by 2020. It's also not clear that electric-powered cars will actually mean less air pollution. Why? Because providing more electricity to recharge all the electric cars will increase demand on electrical generating plants, which typically burn fossil fuels. Manufacturing the batteries for electric cars also produces pollution. In the end, it seems likely that the application of new technologies to the traditional internal combustion engine will mean that gasoline-powered automobiles will dominate the market for years to come.

Critical Thinking Questions

1. Why are misleading green claims made for so many products?
2. What are the pros and cons of having government actively involved in subsidizing the development of green products?

Sources: Jeremy Cato, “It's Not Easy Buying Green,” *The Globe and Mail*, July 15, 2011, D1; Peter Foster, “The Coming Green Car Pileup,” *National Post*, January 14, 2011, FP11; Veronique Dupont, “Consumer Interest in Green Cars Lags; Still Niche Market,” *National Post*, January 12, 2011, FP3; Garry Marr, “We'll Go Green If the Price is Right,” *National Post*, November 17, 2010, FP10; Peter Foster, “Yellow Brick Road to Green Serfdom,” *National Post*, November 10, 2010, FP17; Sarah Schmidt, “Public ‘Greenwashed’ by Eco-Friendly Claims: Study,” *Winnipeg Free Press*, October 26, 2010, A2.

water, and land pollution are the focus of most anti-pollution efforts by business and governments. The boxed insert entitled “Some Frustrations in the Green Movement” describes some difficulties that are evident as companies and consumers try to behave in a more environmentally friendly way.

Air Pollution

Air pollution results when several factors converge to lower air quality. Chemicals like the carbon monoxide emitted by automobiles contribute to air pollution. So do smoke and other chemicals emitted by manufacturing plants. Air pollution is particularly bad in China, where 100 coal-fired power plants are being built each year. Each plant uses 1.3 million tonnes of coal and gives off 3.4 million tonnes of carbon dioxide. Only 5 percent of the coal-fired power plants in China are equipped with pollution control equipment.²¹

air pollution When several factors converge to lower air quality.

The Kyoto Summit in 1997 was an attempt by various governments to reach an agreement on ways to reduce the threat of pollution. Australia is the world’s largest greenhouse gas emitter per capita, contributing 7.3 percent of the world’s total. The United States (at 6.5 percent) and Canada (at 6.4 percent) are close behind. Canada is the only one of the three leading emitters that signed the Protocol, but in 2006 the Conservative government said Canada would not be able to meet the targets for reducing pollution and that it would continue with the Protocol only if the targets were renegotiated.²² The meetings in Copenhagen in 2009 on this issue ended with no agreement.

The United Nations has promoted a “cap and trade” system, in which companies in industrialized countries can buy carbon credits, which essentially give them the right to pollute the atmosphere with carbon dioxide. The money collected is then used to help fund clean-air projects in developing countries that would not otherwise be affordable.²³ But critics of the plan say that the scheme is an open invitation to fraudsters.²⁴ Suppose, for example, that an Indonesian forest operator sells a carbon permit to a German manufacturing firm that is releasing too much CO₂ into the atmosphere. That one transaction is fine, but what if the Indonesian firm sells the same carbon permit to manufacturers in other countries? That will make it appear like a lot more carbon dioxide has been reduced than is actually the case. Multibillion-dollar fraud has already occurred in the European Union’s carbon trading market, and Europol’s Criminal Finances and Technology section estimates that up to 90 percent of all carbon market volume in certain EU nations is fraudulent.²⁵

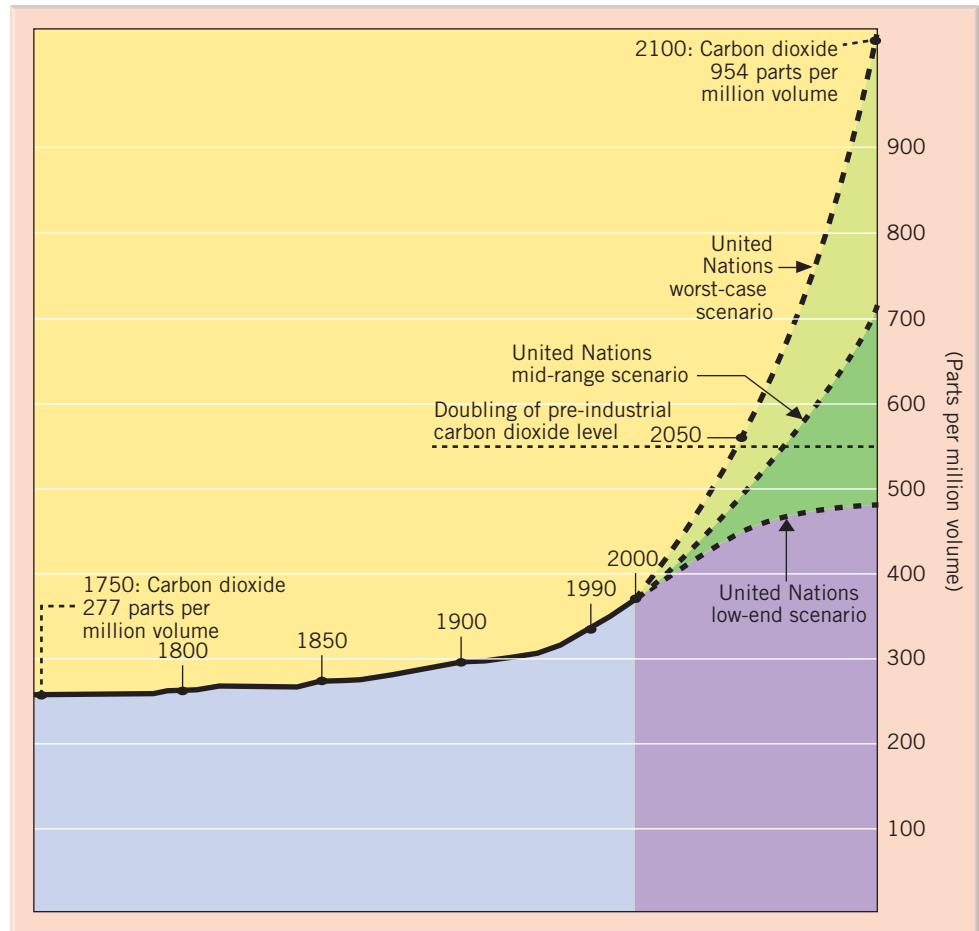
Figure 3.5 shows atmospheric carbon dioxide (CO₂) levels for the period from 1750 to 2000, and offers three possible scenarios for future levels under different sets of conditions.

There is currently a great deal of discussion and debate about climate change and **global warming**—an increase in the earth’s average temperature. Most people agree that global warming is happening, but there is debate about what is causing it (see Concluding Case 3-1 for more information on this issue). In difficult economic times, like those that have been evident during the last few years, people are less willing to make personal sacrifices in order to battle climate change. A poll of 12 000 people in 11 different countries showed that less than half of them were willing to make lifestyle changes to reduce carbon emissions, and only 20 percent said they would be willing to spend extra money to fight climate change.²⁶

global warming An increase in the earth’s average temperature.

Some people think that wind power would be a good way to generate electricity while reducing air pollution. Canada is becoming a world leader in this form of power, and approximately \$18 billion will be invested in wind power by 2015.²⁷ It is possible that 5 percent of Canada’s energy needs will be supplied by wind power by 2015. However, experts note that while wind power is less polluting than coal- or gas-fired electricity generation, it is also more expensive and less reliable.

FIGURE 3.5

CO₂ emissions, past and future.

Water Pollution

For years, businesses and municipalities dumped their waste into rivers, streams, and lakes with little regard for the effects. Thanks to new legislation and increased awareness on the part of businesses, water quality is improving in many areas. For example, Millar Western Pulp Ltd. built Canada's first zero-discharge pulp mill at Meadow Lake, Saskatchewan. There is no discharge pipe to the river, no dioxin-forming chlorine, and almost no residue. Dow Chemical built a plant at Fort Saskatchewan that will not dump any pollutants into the nearby river.²⁸

But water pollution is still a problem, and several high-profile oil spills—like the BP disaster in the Gulf of Mexico in 2010—have occurred. Also in 2010, Enbridge spilled 28 000 barrels of oil into a Michigan river,²⁹ and in 2011, a TransCanada Corp. pipeline was shut down after a leak was discovered at a pumping station in North Dakota.³⁰ These oil spills caused increased concern about the safety of oil that is transported from Canada to the U.S. via pipelines. Pollution of the oceans—by both cargo and passenger ships—is a continuing problem (see the Greening of Business boxed insert in Chapter 5 for more detail).

Land Pollution

toxic wastes Dangerous chemical and/or radioactive by-products of various manufacturing processes.

Toxic wastes are dangerous chemical and/or radioactive by-products of various manufacturing processes. In 2010, oil sands giant Syncrude was found guilty of causing the death of 1600 ducks that landed in a tailing pond they had mistaken for a small lake.

The company faced fines of up to \$800 000 under the federal Migratory Birds Act and the Alberta Environmental Protection and Enhancement Act.³¹ Restoring the quality of land is time consuming and costly. Because toxic waste cannot usually be processed into harmless material or destroyed, it must be stored somewhere. The problem is—where? Few people want a toxic waste storage facility in their town.

recycling The conversion of certain waste materials into useful products.

Recycling. Changes in forestry practices, limits on certain types of mining, and new forms of solid waste disposal are all attempts to address the issue of land pollution. The conversion of certain waste materials into useful products—**recycling**—has developed as a response to the increased consciousness about land pollution. Some products, such as aluminum beverage cans and glass, can be very efficiently recycled. Others, such as plastics, are more troublesome. Many local communities actively support various recycling programs, including curbside pickup of aluminum, plastics, glass, and pulp paper. Plant and animal waste can also be recycled to produce energy; this is referred to as **biomass**. Waste materials like sawdust, manure, and sludge are increasingly being turned into useful products. Ensyn Corp., for example, converts sawdust into liquid fuel by blasting wood waste with a sand-like substance that is heated. What's left is bio-oil.³²

biomass Plant and animal waste that can be recycled to produce energy.

An interesting problem that highlights some of the complexities in recycling involves wooden pallets—those splintery wooden platforms used to store and transport consumer goods. Pallets are popular because they provide an efficient method for stacking and moving large quantities of smaller items. Pallets of merchandise can be easily and efficiently moved from factories to trucks to retail stores. Pallets are very recyclable, but since the cost of new ones is so low, many companies just toss used ones aside and get new ones. Many landfills refuse to take pallets, and others assess surcharges for recycling them. Ironically, some environmentalists argue that abandoned pallets actually serve a useful purpose because, in urban areas, they often become refuges for animals such as raccoons and abandoned pets.³³

Many business firms are now acting to reduce various forms of land pollution. Under the Canadian and Ontario environmental protection acts, liability for a business firm can run as high as \$2 million per day. To protect themselves, companies must prove that they showed diligence in avoiding an environmental disaster such as an oil or gasoline spill.³⁴ The Environmental Choice program, sponsored by the federal government, licenses products that meet environmental standards set by the Canadian Standards Association. Firms whose products meet these standards can put the logo—three doves intertwined to form a maple leaf—on their products.³⁵

Canadian firms that do business abroad are increasingly being confronted with environmental issues. In many cases, there is opposition to a project by local residents because they fear that land pollution will result. For example, Calgary-based TVI Pacific Inc.'s planned open-pit mine and cyanide processing plant in the Philippines led to violent clashes between the company and the Subanon people. In Peru, indigenous groups threatened violence if Talisman Energy continued drilling for oil on their land.³⁶ At the annual meetings of Barrick Gold and Goldcorp Inc., protestors from several foreign countries alleged that the companies had acted in a socially irresponsible way. The mining companies responded that they had a major commitment to social responsibility, and they have recently aired videos showing how they helped Chilean earthquake victims and how they are rehabilitating land at former mine sites.³⁷

Multinational firms have also been publicly criticized. For example, Nestlé has received negative publicity on YouTube, Facebook, and Twitter claiming that the company is contributing to the destruction of Indonesia's rainforest because it purchases palm oil from an Indonesian company that has cleared the rainforest to make way for a palm oil plantation.³⁸

Responsibility Toward Customers

A company that does not act responsibly toward its customers will ultimately lose their trust and their business. As with the environment, companies differ in their level of concern about responsibility to customers. Yet unlike environmental problems, customer problems do not usually require expensive technological solutions. Most problems can be avoided if companies simply obey the laws regarding consumer rights, avoid illegal pricing practices, and behave ethically when advertising their products.



"From a purely business viewpoint, taking what doesn't belong to you is usually the cheapest way to go."

Rights of Consumers

Much of the current interest in business responsibility toward customers can be traced to the rise of **consumerism**, a form of social activism dedicated to protecting the rights of consumers in their dealings with businesses. Consumers have the following rights:

consumerism A social movement that seeks to protect and expand the rights of consumers in their dealings with businesses.

1. *The right to safe products.* The right to safe products is not always honoured. In 2008, 20 people died after eating meat made by Maple Leaf Foods that was contaminated with listeria. Company sales dropped by nearly 50 percent once this became public.³⁹ The government of China has become concerned that negative publicity about faulty toys and contaminated pet food and toothpaste has damaged the "Made in China" label.
2. *The right to be informed about all relevant aspects of a product.* Food products must list their ingredients. Clothing must be labelled with information about its proper care. And banks must tell you exactly how much interest you are paying on a loan. Cereal companies have come under fire for some of the claims they have made about the oat bran content of their cereals, as well as its likely effects.
3. *The right to be heard.* Many companies today have offices to receive complaints. Retailers like Kmart offer a money-back guarantee if consumers aren't satisfied. Procter & Gamble puts a toll-free number on many of its products; customers can call this number if they have questions or complaints. When companies refuse to respond to consumer complaints, consumer protection agencies such as the Better Business Bureau and consumer interest groups such as the Airline Passengers Association may intervene.

4. *The right to choose what they buy.* Central to this right is free and open competition among companies. In times past, “gentlemen’s agreements” were often used to avoid competition or to divide up a market so that firms did not have to truly compete against each other. Such practices are illegal today, and any attempts by business to block competition can result in fines or other penalties.
5. *The right to be educated about purchases.* All prescription drugs now come with detailed information regarding dosage, possible side effects, and potential interactions with other medications.
6. *The right to courteous service.* This right is hard to legislate, but as consumers become increasingly knowledgeable, they are more willing to complain about bad service. Consumer hotlines can also be used to voice service-related issues.

Unfair Pricing

Interfering with competition can also mean illegal pricing practices. **Collusion** among companies—including getting together to “fix” prices—is against the law. Winnipeg-based Arctic Glacier Inc. was one of several companies served with subpoenas by the U.S. government as it investigated collusion in the U.S. market for packaged ice. One of Arctic’s employees, who claimed he was fired for refusing to take part in a conspiracy to divide up markets, went to the U.S. government and helped them in their investigation.⁴⁰ Arctic eventually paid \$12.5 million in fines.⁴¹ The Canadian Competition Bureau also launched an investigation after hearing allegations from a confidential informant that Mars, Hershey, Nestlé, and Cadbury had teamed up in a candy price-fixing scheme.⁴² A law firm in Toronto is organizing a class-action lawsuit against the major chocolate companies, alleging a conspiracy to fix prices.⁴³ In 2012, three gas companies in Kingston and Brockville—Canadian Tire, Pioneer Energy, and Mr. Gas Ltd.—were fined a total of \$2 million by the Competition Bureau for fixing gas prices.⁴⁴

In 2010, new laws came into effect that are designed to make it easier for the Competition Bureau to convict price-fixers (between 1980 and 2010, only three price-fixing convictions were secured out of the 23 cases that came before the Competition Bureau). The maximum prison sentence for price fixing has been tripled to 14 years, and the maximum fine increased from \$10 million to \$25 million.⁴⁵

Ethics in Advertising

In recent years, increased attention has been given to ethics in advertising and product information. Because of controversies surrounding the potential misinterpretation of words and phrases such as *light*, *reduced calories*, *diet*, and *low fat*, food producers are now required to use a standardized format for listing ingredients on product packages. There are several key ethical issues in advertising, including truth-in-advertising claims, the advertising of counterfeit brands, the use of stealth advertising, and advertising that is morally objectionable.

Truth in Advertising. Concerns about truth in advertising are becoming more noticeable on the international scene. For example, Chinese government officials investigated Procter & Gamble’s claim that its Pantene shampoo made hair “10 times stronger.” Procter & Gamble also paid a \$24 000 fine after one consumer complained that SK-II Skin Cream was not the “miracle water” it claimed to be and that it did not make her skin “look 12 years younger in 28 days.”⁴⁶

Advertising of Counterfeit Brands. Counterfeit goods are a problem in many different product lines, including perfume, luggage, pharmaceuticals, designer clothing, shoes, cigarettes, watches, sports memorabilia, and fine wines, to name just a few. In 2011, for example, fake jerseys of the re-born Winnipeg Jets hockey team were seized by the RCMP.⁴⁷ Canada Goose, a manufacturer of extreme weather outerwear,

collusion An illegal agreement among companies in an industry to “fix” prices for their products.

is battling counterfeiters who copy their best-selling products.⁴⁸ Wine makers are also coping with counterfeiting of their products because some of the top names in wine (e.g., Chateau Mouton Rothschild and Penfolds Grange) cost as much as \$3000 a bottle, and this is an incentive to counterfeiters to make a lot of easy money. Wineries are fighting counterfeiting by embedding microchips in their labels that can be read with an optical scanner, and by laser-etching the wine's name and vintage year into the bottle's glass.

The International Chamber of Commerce estimates that the counterfeit goods trade may be worth as much as US\$500 billion annually. According to Interpol—the International police organization in Lyon, France—organized crime groups have gotten into the business of counterfeiting products because of the high rate of return they can make (about as high as the illegal drug trade). One group in New York City, for example, imported watch components that cost them about 27 cents and then sold them to wholesalers for \$12 to \$20. The wholesalers then sold them to street vendors for \$20 to \$30 dollars and the street vendors sold them as Cartier watches for as much as \$250. That was still well below the price of a real Cartier watch (about \$1800).

Counterfeiting has moved beyond the manufacturing of individual products. In China and in New York City, fake Apple stores have popped up, complete with sales assistants wearing blue T-shirts with the Apple logo and signs advertising the iPad2.⁵⁰ In the Chinese city of Kunming, an Ikea knockoff store called 11 Furniture duplicates Ikea's well-known blue-and-yellow look and has essentially pirated the entire Ikea brand experience.⁵¹

Counterfeiting is harmful to companies that have spent a lot of time and money developing brand name goods for sale. Every counterfeit product that is sold reduces the sales revenues of the legitimate producers. It also harms governments by denying them tax revenues (most counterfeiters do not pay taxes). While it may seem that consumers benefit because they get low prices for goods that look like the real thing, in fact consumers often pay far too much for counterfeit goods because those goods are very low quality. As well, some counterfeit goods are downright dangerous to use. While a fake handbag simply costs money, fake pharmaceuticals, electrical products, and motorcycles can kill the people who use them.⁵²

One approach to reducing counterfeiting is to prosecute anyone who facilitates the sale of counterfeit products, including landlords (who own the buildings where counterfeit goods are being sold), shipping companies, credit-card companies and others in the supply chain.⁵³ The argument is that these people are benefiting from the sale of knock-offs, so they should be held accountable. There is also a move in some countries to hold the consumers who buy counterfeit goods accountable. In France and Italy, for example, it is now a crime to buy counterfeit goods.

There is increasing pressure on the Canadian government to do something about counterfeit goods.⁵⁴ The Canadian Anti-Counterfeiting Network (CACN) was formed in 2005 to lobby the government for changes in laws. But changes are slow in coming, and the U.S. has placed Canada on its official list of countries that don't do enough to control counterfeit products (the list also includes Turkey, Belarus, Vietnam, and Uzbekistan). Canada is moving slowly toward bringing its laws into conformity with the World Intellectual Property Organization (WIPO). In 2011, an Anti-Counterfeiting Trade Agreement (ACTA) was signed by 40 countries (but not by China). The agreement is designed to fight the global trade in pirated goods.⁵⁵

stealth advertising (undercover or guerrilla advertising) Involves companies paying individuals to extol the virtues of their products to other individuals.

Stealth Advertising. A variation of viral advertising, **stealth advertising** (also called **undercover or guerrilla advertising**) involves companies paying individuals to extol the virtues of their products to other individuals. For example, one advertising agency hired models to pose as "tourists." These models asked real tourists to take their picture with a new Sony Ericsson camera cellphone. The models then talked up the advantages of the new product to the unsuspecting real tourists.⁵⁶ The ethics of stealth advertising are questionable if the paid individuals do not reveal that they are being paid by a company. In that case, the recipient of the advertising is not aware that it *is* advertising.



Of all roadway accidents, 25 percent are distraction related, and the biggest distractions for motorists are handheld gadgets such as cellphones, pagers, and the like. In fulfilling their responsibility to consumers, some companies are conducting tests, which yield important data about roadway accidents. Ford Motor Company, for example, has a Virtual Test Track Experiment simulator that determines how often drivers get distracted. Under normal circumstances, an adult driver will miss about 3 percent of the simulated “events” (like an ice patch or a deer on the road) that Ford contrives for a virtual road trip. If they’re on the cellphone, they’ll miss about 14 percent. Teenagers miss a scary 54 percent of the events.

Morally Objectionable Advertising. A final ethical issue concerns advertising that is morally objectionable. Benetton, for example, aired a series of commercials featuring inmates on death row. The ads, dubbed “We, on Death Row,” prompted such an emotional outcry that Sears dropped the Benetton USA clothing line.⁵⁷ Other ads receiving criticism include Victoria’s Secret models in skimpy underwear, and campaigns by tobacco and alcohol companies that allegedly target young people.

Responsibility Toward Employees

Organizations also need to employ fair and equitable practices with their employees. In Chapter 8, we describe the human resource management activities essential to a smoothly functioning business—recruiting, hiring, training, promoting, and compensating. These activities are the basis for social responsibility toward employees. A company that provides its employees with equal opportunities for rewards and advancement without regard to race, sex, or other irrelevant factors is meeting its social responsibilities. Firms that ignore their responsibility to employees leave themselves open to lawsuits. They also miss the chance to hire better and more highly motivated employees.

Legal and Social Commitments

Socially responsible companies ensure that their workplaces are safe, both physically and emotionally. Such companies would no more tolerate an abusive manager or one who sexually harasses employees than they would a natural gas leak. But progressive companies go well beyond simple legal requirements. The Bank of Montreal, for example, sponsors a community college skills upgrading course for individuals with hearing impairments. The Royal Bank provides managers with discrimination awareness training. Rogers Cablesystems Ltd. provides individuals who have mobility restrictions with telephone and customer-service job opportunities.⁵⁸

Business firms also have a responsibility to respect the privacy of their employees. Nearly everyone agrees that companies have the right to exercise some level of control over their employees, but there is controversy about exactly how much is acceptable in areas such as drug testing and computer monitoring. When Canadian National Railways instituted drug testing for train, brake, and yard employees, 12 percent failed. Trucking companies have found that nearly one-third of truckers who have been involved in accidents were on drugs.⁵⁹ It seems likely that safety will be compromised when employees use in transportation companies use drugs, but there is controversy about what kind of testing is appropriate.

Differences of opinion are also evident with regard to the monitoring of employees' online activities while they are at work. New software programs allow bosses to see things like employees' Facebook comments and their opinions about pubs on Foursquare. Social Sentry, a tracking system developed by Social Logix, records employee social media activity from work or home. The program looks for workers who leak sensitive company information or who bad-mouth the company.⁶⁰ It seems reasonable to argue that workers shouldn't damage the reputation of the company they work for, but there is no consensus on what constitutes going "too far."

Whistle-Blowers. Respecting employees as people also means respecting their behaviour as ethically responsible individuals. Suppose an employee discovers that a business has been engaging in practices that are illegal, unethical, or socially irresponsible. This employee should be able to report the problem to management, but management often does not want to hear about such issues. The employee might then decide to inform a regulatory agency or perhaps the media. At this point, he or she becomes a **whistle-blower**—an employee who discovers and tries to put an end to a company's unethical, illegal, or socially irresponsible actions by publicizing them.⁶¹

whistle-blower An employee who discovers and tries to put an end to a company's unethical, illegal, or socially irresponsible actions by publicizing them.



BUSINESS ACCOUNTABILITY



Should Whistle-Blowers be Paid?

In Canada, whistle-blower programs like the one established in 2009 by the Investment Industry Regulatory Organization of Canada have not paid whistle-blowers for reporting illegal acts. Rather, attention has focussed on protecting whistle-blowers from retaliation by the companies they claim have behaved illegally. This contrasts with the situation in the U.S., where whistle-blowers are paid a bounty of between 10 and 30 percent when more than \$1 million is recovered from corporate wrongdoers.

In 2011, the Ontario Securities Commission announced that it might implement a whistle-blower program that would be more like the U.S. model. But this raises an important question: Are there unanticipated negative consequences that might arise as a result of paying whistle-blowers? There are two opposing views on this question (naturally!).

Supporters argue that paying whistle-blowers is a good idea because whistle-blowers face a great deal of hostility and harassment from their companies when they report managerial misconduct. For example, whistle-blowers are often charged with breaching confidentiality, and they then must pay legal fees as they defend themselves. Companies also try to publicly discredit the whistle-blower, and this likely reduces the person's future job prospects. The practice of "speaking truth to power" is risky for whistle-blowers, so they should be compensated for doing so. Beyond these arguments is the practical fact that the government can recover large sums of money from companies that behave badly. The U.S. government, for example, has recovered more than \$28 billion in the last 25 years from companies that made false claims for payments from government contracts.

Opponents argue that if whistle-blowers are paid, they will have an incentive to bypass existing compliance programs and go straight for the money. Undermining existing procedures is probably not a good thing. They also argue that whistle-blowers may make questionable charges as they put their own financial interests ahead of the interests of the company they work for. There may also be a "rush to judgment" about a situation, especially if a new whistle-blower law requires that quick action be taken to resolve a problem. For example, at French carmaker Renault, three high-ranking executives were fired in 2011 after an anonymous tip that they had stashed bribe money in a Swiss bank. The three executives were eventually exonerated, but they were subjected to considerable stress and the company experienced a public humiliation.

Critical Thinking Questions

1. In your own words, state the pros and cons of paying whistle-blowers for the information they provide.
2. On balance, do you think it is a good idea to pay whistle-blowers? Defend your answer.

Sources: David Gauthier-Villars, "Renault Security Held in Spy Case," *The Wall Street Journal*, March 12–13, 2011, B1; Edward Waitzer, "Should We Pay For Whistle-Blowing?" *National Post*, March 22, 2011, FP11; Dimitri Lascaris, "Speak Truth to Power," *National Post*, March 25, 2011, FP11; David Gauthier-Villars and Sebastian Moffett, "Renault to Yield in l'Affaire d'Espionnage," *The Wall Street Journal*, March 10, 2011, B1.

John Kopchinski, a sales representative at pharmaceutical giant Pfizer, blew the whistle on the company after he learned that Pfizer was promoting certain drugs for unapproved uses. He received \$5.1 million from the U.S. government for his whistle-blowing efforts.⁶² In Canada, WestJet employee Melvin Crothers discovered that a fellow employee was accessing a restricted Air Canada website in order to obtain data about Air Canada's "load factor" (the proportion of seats filled) on certain flights. He felt that this was unethical, so he tried to talk to WestJet's president to tell him what was going on. But the president was out of town, so Crothers called a former WestJet president who was heading up an Air Canada discount airline. The conversation led to Air Canada discovering what WestJet was up to, and before long, Air Canada filed a lawsuit against WestJet. Crothers resigned from WestJet four days later.⁶³

Whistle-blowers are often demoted—and even fired—when they make their accusations public. Even if they retain their jobs, they may still be treated as outsiders and suffer resentment or hostility from co-workers. Many co-workers see whistle-blowers as people who simply can't be trusted. One recent study suggests that about half of all whistle-blowers eventually get fired, and about half of those who get fired subsequently lose their homes and/or families.⁶⁴

Federal legislation to protect whistle-blowers was introduced in Canada in 2003. In 2009, the Investment Industry Regulatory Organization of Canada (IIROC) opened a whistle-blower hotline as a result of an increased incidence of securities fraud such as Ponzi schemes in both Canada and the U.S. Calls regarding market fraud are forwarded to four of the top people at the IIROC so that swift action can be taken.⁶⁵ The boxed insert entitled "Should Whistle-Blowers Be Paid?" analyzes an interesting issue in whistle-blowing.



The safety of workers is an important consideration for all organizations. The required use of hardhats is just one example of precautions that companies can take to protect workers while they are on the job.

Responsibility Toward Investors

It may sound odd to say that managers can be irresponsible toward investors, since the investors are the owners of the company. But managers behave irresponsibly when they pay themselves outlandish salaries and bonuses, or spend large amounts of company money for their own personal comfort. If managers do not use the firm's financial resources in a responsible way, the ultimate losers are the owners, since they do not receive the earnings, dividends, or capital appreciation due them. Financial mismanagement can take many forms, including *improper financial management*, *misrepresentation of finances*, *cheque kiting*, and *insider trading*.

Improper Financial Management

Improper financial management can take many forms, including executives making bad financial decisions, paying executives outlandish salaries and bonuses, or sending them on extravagant “retreats” to exotic resorts. For example, managers at American International Group became involved in very-high-risk insurance that caused the company to be on the hook for billions of dollars. The U.S. government ended up giving hundreds of billions of dollars to the company to keep it afloat. In many of these situations, creditors don't have much leverage and shareholders have few viable options. Trying to force a management changeover is not only difficult, it can also drive down the price of the company's stock, and this is a penalty shareholders are usually unwilling to assign themselves.

Misrepresentation of Finances

Occasionally, managers are guilty of financial mismanagement. In Canada, one of the most highly publicized cases involved Garth Drabinsky and Myron Gottlieb, the top managers at Livent Inc. (see the opening case). But Drabinsky and Gottlieb are not the only executives who have been charged with wrongdoing in the recent past. In 2005, Bernie Ebbers, the CEO of WorldCom, was found guilty of nine charges of securities fraud and filing false documents. He was sentenced to 25 years in prison. In 2006, Ken Lay, the CEO of Enron, was convicted of conspiracy and securities fraud, but he died before he was sentenced. In 2007, Conrad Black, CEO of Hollinger International, was convicted of fraud and obstruction of justice and was sentenced to six and a half years in prison. In December 2008, Bernie Madoff pleaded guilty to swindling investors in a \$50 billion fraud. He is likely to spend the rest of his life in prison.⁶⁶

Cheque Kiting

cheque kiting Involves writing a cheque from one account, depositing it in a second account, and then immediately spending money from the second account while the money from the first account is still in transit.

Cheque kiting involves writing a cheque from one account, depositing it in a second account, and then immediately spending money from the second account while the money from the first account is still in transit. A cheque from the second account can also be used to replenish the money in the first account, and the process starts all over again. This practice obviously benefits the person doing the cheque kiting, but is irresponsible because it involves using innocent people's money to allow cheques that would otherwise bounce to clear.

insider trading The use of confidential information to gain from the purchase or sale of stock.

Insider Trading

Insider trading occurs when someone uses confidential information to gain from the purchase or sale of stock. In 2011, for example, the Alberta securities regulator charged several executives at Grand Cache Coal Corp. with insider trading for selling company stock before the company disclosed negative news about its sales.⁶⁷ Also in 2011, Raj Rajaratnam, the co-founder of Galleon Group, was sentenced to 11 years in prison for insider trading.⁶⁸



"From a purely business viewpoint, taking what doesn't belong to you is usually the cheapest way to go."

Implementing Social Responsibility Programs

Substantial differences of opinion exist as to the appropriateness of CSR as a business goal. Supporters of CSR believe that corporations are citizens, just as individuals are, and therefore have the same social responsibilities as private citizens with regard to the environment, etc. Others point to the vast resources controlled by businesses and note that since businesses often create many of the problems that social programs are designed to alleviate, they should use their resources to solve those problems. Still others argue that CSR is wise because there is a payoff for the firm.

Opponents of CSR fear that if businesses become too active in social concerns, they will gain too much control over how those concerns are addressed. They point to the influence many businesses have been able to exert on the government agencies that are supposed to regulate them. Other critics of business-sponsored social programs argue that companies lack expertise in the areas they are trying to influence. For example, they believe that technical experts, not business managers, should decide how best to clean up a polluted river.

The late Max Clarkson, formerly a top-level business executive and director of the Centre for Corporate Social Performance and Ethics at the University of Toronto, designed and applied a CSR rating system for companies. He found that business firms that had a strong consciousness about ethics and CSR outperformed firms that did not.⁶⁹

Approaches to Social Responsibility

Given these differences of opinion, it is little wonder that corporations have adopted a variety of approaches to social responsibility. As Figure 3.6 illustrates, the four stances an organization can take concerning its obligations to society fall along a continuum ranging from the lowest to the highest degree of CSR practices. Keep in mind that organizations do not always fit neatly into one category or another. The Ronald

Identify four general approaches to social responsibility and describe the four steps a firm must take to implement a social responsibility program.

L04

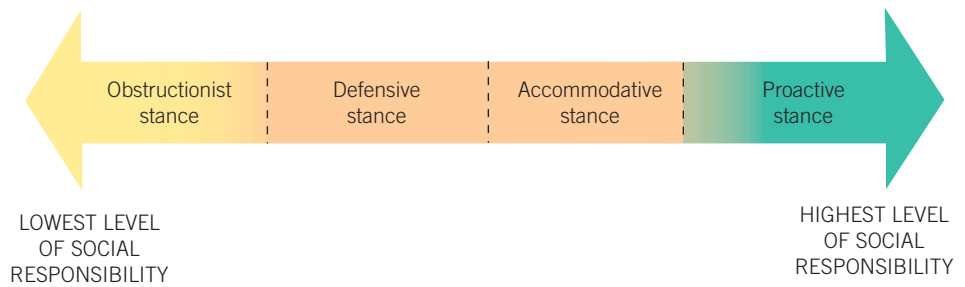


FIGURE 3.6

Spectrum of approaches to social responsibility.

obstructionist stance A business does as little as possible to solve social or environmental problems and denies or covers up their wrongdoings.

defensive stance An organization does only what is legally required and nothing more.

accommodative stance A company meets all of its legal and ethical requirements, and in some cases even goes beyond what is required.

proactive stance An organization actively seeks opportunities to be socially responsible.

McDonald House program has been widely applauded, for example, but McDonald's has also come under fire for allegedly misleading consumers about the nutritional value of its food products. The Exercising Your Ethics exercise at the end of the chapter gives you an opportunity to think about the pros and cons of the various stances toward CSR.

Obstructionist Stance

Businesses that have an **obstructionist stance** to social responsibility do as little as possible to solve social or environmental problems. When these businesses cross the ethical or legal line that separates acceptable from unacceptable practices, their typical response is to deny or cover up their actions. Firms that adopt this position have little regard for ethical conduct and will generally go to great lengths to hide wrongdoing.

Defensive Stance

One step removed from the obstructionist stance is the **defensive stance**, where the organization does everything that is required of it legally but nothing more. Tobacco companies in Canada and the U.S. generally adopt this stance since they are legally required to include warnings to smokers on their products and to limit advertising to prescribed media. They follow these rules to the letter of the law, but they use more aggressive marketing methods in countries that have no such rules.

Accommodative Stance

A firm that adopts an **accommodative stance** meets its legal and ethical requirements but also goes further in certain cases. Such firms voluntarily agree to participate in social programs but only after they are convinced that these programs are worthy of their support. Many organizations respond to requests for donations to community hockey teams, Girl Guides, youth soccer programs, and so forth. The point, however, is that someone has to knock on the firm's door and ask; accommodative organizations are not generally proactively seeking avenues for contributing.

Proactive Stance

The highest degree of social responsibility a firm can exhibit is the **proactive stance**. Firms that adopt this approach view themselves as citizens in a society and proactively seek opportunities to contribute. The most common—and direct—way to implement this stance is by setting up a foundation to provide direct financial support for various social programs. The boxed insert entitled “AEM Healthy Food” explains a proactive move to develop a more healthful product for consumers.

ENTREPRENEURSHIP AND NEW VENTURES



AEM Healthy Food

“Do brown cows make chocolate milk?” The question most kids have posed simply expresses the growing popularity of chocolate milk beverages amongst consumers of all ages. In this expanding market, consumers increasingly look for more than what manufacturers are currently offering and insist on products that are good for the whole family. AEM Healthy Food is meeting the demands of health-conscious consumers in their development of a no-sodium-added, low-sugar chocolate milk, allowing consumers to reap all of the nutritional benefits of milk without the additives. This, however, is not your traditional product development success story but rather a story that will hopefully *MOOOve* you to understand the concept of entrepreneurship and its endless possibilities in addressing social issues.

An “Interdisciplinary Product Development” course at the University of Guelph, in Guelph, Ontario began its seventh year as it normally would, with students forming teams whose members consisted of both science and business majors. These groups were then asked to develop a new product that would help address a social, market, or consumer issue. This was a task that students Michael Lanteigne (Accounting Major), Eric Martin (Agricultural Business Major) and Aneta Rybak (Food Science) did not take lightly. Instead, the group of three set out to take on the challenges of developing chocolate milk with no sodium added and with less sugar.

“For many primary school students,” Professor Lang explained, “chocolate milk is the only source of milk these students get and that concerns parents who worry about the amount of sugar in chocolate milk.”

With this in mind and an “*udder*” dedication to the project, Lanteigne, Martin, and Rybak collaborated in developing a chocolate milk product that was well received by children and adults alike. To further test their product’s market receptivity, the student team entered the chocolate milk in a number of competitions, hoping to gain feedback that would help them fine-tune their product. To their amazement, even though many of the other competitors were engineering students with very technical products, the chocolate milk product surpassed everything else.

The results spoke for themselves: people were delighted with a product that offered good taste but less sodium and sugar, and virtually everyone who sampled the chocolate milk could see themselves becoming regular consumers. Primary research also suggested that children could not detect a difference between the traditional formulation and the reformulated version. This suggests that the product could be used in school milk programs without a noticeable difference being detected.

This fourth-year interdisciplinary course allows students not only to have a positive influence on the everyday lives of consumers, but also to gain valuable experience in both entrepreneurship and product development. “It’s an entrepreneurial

course that pushes students outside their comfort zone. I’ve got accounting students working alongside science students in the lab developing new food products,” says Prof. Lang. The course allows students to take part in every step of the product development process, from conceptualization to commercialization. The diverse interdisciplinary strengths of students in this course, along with each enrollee’s desire to become an entrepreneur, leads to endless possibilities for addressing social issues that should be milked to the fullest!

Critical Thinking Questions

1. How has AEM Healthy Food addressed the various areas of social responsibility?
2. How can educational institutions foster social responsibility?

Corporate Charitable Donations. Donating money to different causes is one way that business firms try to show that they are socially responsible. Every four months, for example, Whole Foods (Toronto) donates five percent of one day’s sales to a designated non-profit organization.⁷⁰ At CIBC, the Miracle Day program has raised a total of \$64 million for children’s charities in Canada.⁷¹ A survey of 93 large Canadian companies found that 97 percent made a charitable contribution of some sort and that the median value of their contributions was \$340 000.⁷² More than 80 percent of the companies said that they made contributions because it was a good thing to do, irrespective of any financial benefits they might derive from giving.⁷³ Unfortunately, the difficult economic circumstances of the last few years have caused a decline in corporate donations. For example, corporate donations to the Daily Bread Food Bank in Toronto were down 40 percent in 2011. According to Statistics Canada, corporate donations to charities declined from \$2.45 billion in 2008 to \$2.26 billion in 2010.⁷⁴

Businesses often help when disasters strike. When seven people died in Walkerton, Ontario in 2000 as a result of drinking contaminated water, companies such as Petro-Canada, Shoppers Drug Mart, Sobeys, and Zellers contributed products such as bleach and bottled water. And when tens of thousands of people died in the Asian tsunamis of 2004, companies from around the world rushed aid to the stricken areas. Global Fortune 500 firms donated \$580 million in drugs, cellphones, machinery, medical equipment, and water to the relief effort.⁷⁵

Other types of contributions are also possible. For example, Unilever Canada gives employees four afternoons off a year to participate in community service activities.⁷⁶ Mars Canada sets aside one day each year for employees to volunteer. Tim Hortons Children’s Foundation plans to open a camp for underprivileged children in 2013 at Sylvia Lake in Manitoba. The Foundation also has a youth Leadership Program that is currently offered at two sites in Ontario.⁷⁷

Managing Social Responsibility Programs

Making a company truly socially responsible takes an organized and managed program (see Figure 3.7).

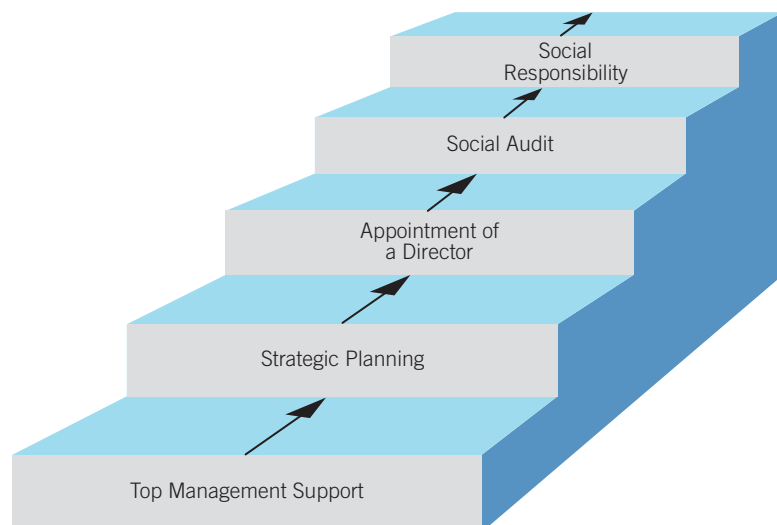
1. Top management must state strong support for CSR and be considered a factor in strategic planning. Without the support of top management, no program can succeed.
2. A committee of top managers must develop a plan detailing the level of management support. Some companies set aside percentages of profits for social programs. Mountain Equipment Co-op, for example, earmarks 1 percent of its sales revenue for charity. Managers must also set specific priorities. For instance, should the firm help with job training for the chronically unemployed or support the arts?
3. One executive must be put in charge of the firm's agenda. Whether the role is created as a separate job or added to an existing one, the selected individual must monitor the program and ensure that its implementation is consistent with the firm's policy statement and strategic plan.
4. The organization must conduct **social audits**, which are systematic analyses of its success in using funds earmarked for its CSR goals.⁷⁸ Suppose a company has a strategic plan calling for spending \$100 000 to train 200 chronically unemployed people and to place 180 of them in jobs. If the firm actually spends \$98 000, trains 210 people, and fills 175 jobs, a social audit will confirm the program's success. But if the program costs \$150 000, trains only 90 people, and places only 10 of them, the audit will reveal the program's failure. Such failure should prompt a rethinking of the program's implementation and its priorities.

social audit A systematic analysis of how a firm is using funds earmarked for social responsibility goals and how effective these expenditures have been.

An important element in a social responsibility program is the idea of **sustainable development**, which means pursuing activities that meet current needs but will not put future generations at a disadvantage when they in turn attempt to meet their own needs. When making sustainable development decisions, it is important that managers simultaneously consider economic, social, and environmental variables. Research at the London and Harvard Business Schools shows that companies that adopt mandatory sustainability reporting requirements see positive effects on corporate performance.⁷⁹

FIGURE 3.7

Establishing a social responsibility program involves four basic steps.





Ronald McDonald House helps the families of children who are in hospital. It is supported by McDonald's and is an example of socially responsible behaviour by a business corporation.

Canadian businesses are increasingly publishing sustainability reports that go beyond simple financial reporting and explain how the company is performing on issues such as the environment, employee relations, workplace diversity, and business ethics. For example, Artopex Inc., a furniture manufacturer in Quebec, has an active sustainability program.⁸⁰ Baxter Corp., a medical products company, publishes an annual Global Sustainability Report measuring the company's progress on nine sustainable priorities, including reductions in its carbon footprint.⁸¹ Social audits and sustainability reports together constitute **triple bottom line reporting**—measuring the social, environmental, and economic performance of a company.⁸²

triple bottom line reporting Measuring the social, environmental, and economic performance of a company.

The Global 100 list of the most sustainable corporations in the world is based on factors like energy productivity (the ratio of sales to energy consumption) and water productivity (sales to water usage). In the 2012 ranking, Novo Nordisk (Denmark) was first, Natura Cosmetics (Brazil) second, and Statoil (Norway) third. Six Canadian companies made the Top 100, including Suncor (#48), Enbridge (#71), and Encana Corp. (#76).⁸³ Each year the Corporate Knights organization publishes its Best 50 Corporate Citizens in Canada list. The rankings are based on an assessment of factors such as pension fund quality, board diversity, tax dollar generation, and Aboriginal relations. The top three companies in 2011 were The Co-operators Group Ltd., Mountain Equipment Co-op, and Domtar Corporation.⁸⁴

Social Responsibility and the Small Business

Ethics and CSR issues must be faced by managers in all organizations, regardless of size. One key to business success is to decide in advance how to respond to these issues. As the owner of a garden supply store, how would you respond to a building inspector's suggestion that a cash payment would expedite your application for a building permit? As the manager of a nightclub, would you call the police, refuse service, or sell liquor to a customer whose ID card looks forged? As the owner of a small laboratory, would you call the board of health to make sure that it has licensed the company you want to contract to dispose of the lab's medical waste? Who will really be harmed if a small firm pads its income statement to help get a much-needed bank loan?

Can a small business afford to set CSR objectives? Should it sponsor hockey teams, make donations to the United Way, and buy light bulbs from the Lions Club? Would

Explain how issues of social responsibility and ethics affect small businesses.

LO5

you join the Chamber of Commerce and support the Better Business Bureau because it is the responsible thing to do or just because it is good business? The boxed insert entitled “How Green Is That Orange?” describes the social responsibility initiatives of one small business.

Test yourself on the material for this chapter at www.pearsoned.ca/mybusinesslab.

SUMMARY OF LEARNING OBJECTIVES



- 1. Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.** Individual codes of ethics are derived from social standards of right and wrong. Ethical behaviour is behaviour that conforms to generally accepted social norms concerning beneficial and harmful actions. Unethical behaviour can result in loss of business, fines, and even imprisonment. Because ethics affect the behaviour of individuals on behalf of the companies that employ them, many firms are adopting formal statements of ethics.
- 2. Distinguish corporate social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.** *Corporate social responsibility* refers to the way a firm attempts to balance its commitments to organizational stakeholders. One way to understand social responsibility is to view it in terms of stakeholders—those groups, individuals, and organizations that are directly affected by the practices of an organization and that therefore have a stake in its performance. Until the second half of the nineteenth century, businesses often paid little attention to stakeholders. Since then, however, both public pressure and government regulation, especially as a result of the Great Depression of the 1930s and the social activism of the 1960s and 1970s, have forced businesses to consider public welfare, at least to some degree. A trend toward increased social consciousness, including a heightened sense of environmental activism, has recently emerged.
- 3. Show how the concept of corporate social responsibility (CSR) applies to environmental issues and to a firm’s relationships with customers, employees, and investors.** With respect to

the environment, CSR requires firms to minimize pollution of air, water, and land. With respect to customers, CSR requires firms to provide products of acceptable quality, to price products fairly, and to respect consumers’ rights. With respect to employees, CSR requires firms to respect workers both as resources and as people who are more productive when their needs are met. With respect to investors, CSR requires firms to manage their resources and to represent their financial status honestly.

- 4. Identify four general approaches to social responsibility and describe the four steps a firm must take to implement a social responsibility program.** An *obstructionist stance* on social responsibility is taken by a firm that does as little as possible to address social or environmental problems. The *defensive stance* emphasizes compliance with minimum legal requirements. Companies adopting the *accommodative stance* go beyond minimum activities, if they are asked. The *proactive stance* commits a company to actively contribute to social projects. Implementing a social responsibility program entails four steps: (1) drafting a policy statement with the support of top management, (2) developing a detailed plan, (3) appointing a director to implement the plan, and (4) conducting social audits to monitor results.
- 5. Explain how issues of social responsibility and ethics affect small businesses.** **Managers and employees of small businesses** face many of the same ethical questions as their counterparts at larger firms. Small businesses also face the same issues of social responsibility and the same need to decide on an approach to social responsibility. The differences are primarily differences of scale.

KEY TERMS

accommodative stance (p. 000)
 air pollution (p. 000)
 biomass (p. 000)
 business ethics (p. 000)
 cheque kiting (p. 000)
 code of ethics (p. 000)
 collusion (p. 000)
 conflict of interest (p. 000)
 consumerism (p. 000)
 corporate social responsibility (CSR) (p. 000)

defensive stance (p. 000)
 ethical behaviour (p. 000)
 ethics (p. 000)
 global warming (p. 000)
 insider trading (p. 000)
 managerial ethics (p. 000)
 obstructionist stance (p. 000)
 organizational stakeholders (p. 000)
 pollution (p. 000)

proactive stance (p. 000)
 recycling (p. 000)
 social audit (p. 000)
 stealth (undercover) advertising (p. 000)
 sustainable development (p. 000)
 toxic wastes (p. 000)
 triple bottom line reporting (p. 000)
 unethical behaviour (p. 000)
 whistle-blower (p. 000)

QUESTIONS FOR ANALYSIS

1. Develop an example of the way in which your personal code of ethics might clash with the operations of a specific company. How might you try to resolve these differences?
2. What kind of wrongdoing would be most likely to prompt you to be a whistle-blower? What kind of wrongdoing would be least likely? Why?
3. Which area of social responsibility is most important to you? Why? Are there areas other than those noted in the chapter that you consider important as well?
4. Identify some specific ethical or social responsibility issues that might be faced by small business managers and employees in each of the following areas: environment, customers, employees, and investors.
5. Choose a product or service and explain the social responsibility concerns that are likely to be evident in terms of the environment, customers, employees, and investors.
6. Pick one product or service that demonstrates each of the four approaches to social responsibility (obstructionist, defensive, accommodative, and proactive). What has been the impact of each stance on the company that is using it? Why did these companies adopt the particular stance they did? Have the companies that have adopted these different stances had different levels of success?

APPLICATION EXERCISES

1. Develop a list of the major stakeholders of your college or university. What priority does the school assign to these stakeholders? Do you agree or disagree with this prioritization?
2. Write a one-paragraph description of an ethical dilemma that you or someone you know faced recently. Analyze the situation using the ideas presented in the chapter. Make particular reference to the ethical norms of utility, rights, justice, and caring in terms of how they influenced the situation. What would each of these suggest about the correct decision?
What was the actual outcome in the situation?
Which ethical norm seems to have been most important?
3. Go to the website of the Center for Ethics and Business at Loyola Marymount University and click on "Toolbox." Then click on "Quiz: What's Your Ethical Style?" Then take the ethics quiz and analyze what your score implies about how you are likely to react when you are faced with an ethical dilemma.
4. Interview the owner of a local small business. Ask the owner to (1) give his or her views on the importance of social responsibility for small businesses, (2) describe the kinds of socially responsible activities the company is currently involved in, and (3) describe the factors that facilitate and inhibit social responsibility initiatives in small businesses.

BUILDING YOUR BUSINESS SKILLS



To Lie or Not to Lie: That Is the Question

The Purpose of This Assignment

To encourage students to apply general concepts of business ethics to specific situations.

Background

Workplace lying, it seems, has become business as usual. According to one survey, one-quarter of working adults said that they had been asked to do something illegal or unethical on the job. Four in 10 did what they were told. Another survey of more than 2000 administrative assistants showed that many employees face ethical dilemmas in their day-to-day work.

Assignment

Step 1

Working with four other students, discuss ways in which you would respond to the following ethical dilemmas. When there is a difference of opinion among group members, try to determine the specific factors that influence different responses.

- Would you lie about your supervisor's whereabouts to someone on the phone?
- Would you lie about who was responsible for a business decision that cost your company thousands of dollars in order to protect your own or your supervisor's job?

- Would you inflate sales and revenue data on official company accounting statements to increase stock value?
- Would you say that you witnessed a signature when you did not if you were acting in the role of a notary?
- Would you keep silent if you knew that the official minutes of a corporate meeting had been changed?
- Would you destroy or remove information that could hurt your company if it fell into the wrong hands?

Step 2

Research the commitment to business ethics at Johnson & Johnson (www.jnj.com/our_company/our_credos/index.htm) and Texas Instruments (www.ti.com/corp/docs/company/citizen/ethics/index.shtml) by visiting their respective websites. As a group, discuss ways in which these statements are likely to affect the specific behaviours mentioned in Step 1.

Step 3

Working with group members, draft a corporate code of ethics that would discourage the specific behaviours mentioned in

Step 1. Limit your code to a single typewritten page, but make it sufficiently broad to cover different ethical dilemmas.

Questions for Discussion

1. What personal, social, and cultural factors do you think contribute to lying in the workplace?
2. Do you agree or disagree with the following statement? *The term business ethics is an oxymoron.* Support your answer with examples from your own work experience or that of a family member.
3. If you were your company's director of human resources, how would you make your code of ethics a "living document"?
4. If you were faced with any of the ethical dilemmas described in Step 1, how would you handle them? How far would you go to maintain your personal ethical standards?

EXERCISING YOUR ETHICS: TEAM EXERCISE

Assessing the Ethics of Trade-Offs

The Situation

Managers must often make choices among options that are presented by environmental circumstances. This exercise will help you better appreciate the nature and complexity of the kinds of trade-offs that often result.

The Dilemma

You are the CEO of a medium-sized, unionized manufacturing corporation that is located in a town of about 15 000 people. The nearest major city is about 200 kilometres away. With about 500 workers, your company is one of the five largest employers in town. A regional recession has caused two of the other largest employers to close down (one went out of business and the other relocated to another area). A new foreign competitor has set up shop in the area, but local unemployment has still risen sharply. All in all, the regional economic climate and the new competitor are hurting your business. Your company's sales have dropped 20 percent this year, and you forecast another drop next year before things begin to turn around.

You face two unpleasant choices:

Choice 1: You can tell your employees that you need them to take cuts in pay and benefits. You know that because of the local unemployment rate, you can easily replace anyone who refuses. Unfortunately, you may need your employees to take another cut next year if your forecasts hold true. At the same time, you have reason to believe that when the

economy rebounds (in about two years, according to your forecasts), you can begin reversing pay cuts. Here are the advantages of this choice: You can probably (1) preserve all 500 jobs, (2) maintain your own income, (3) restore pay cuts in the future, and (4) keep the business open indefinitely. And the disadvantages: Pay cuts will (1) pose economic hardships for your employees, and (2) create hard feelings and undercut morale.

Choice 2: You can maintain the status quo as far as your employees are concerned, but in that case, you'll be facing two problems: (1) you'll have to cut your own salary (while you can certainly afford to live on less income, doing so would be a blow to your personal finances); and (2) if economic conditions get worse and/or last longer than forecast, you may have to close down altogether. The firm has a cash surplus, but because you'll have to dip into that fund to maintain stable wages, it will soon run out. The advantages of this option: You can (1) avoid economic hardship for your workers, and (2) maintain good employee relations. The downside: You will reduce your own standard of living and may eventually cost everyone his or her job.

Team Activity

Assemble a group of four students and assign each group member to one of the following roles:

- CEO of the company
- the vice-president of production
- a stockholder
- an employee who is a member of the union

Action Steps

1. Before discussing the situation with your group, and from the perspective of your assigned role, which of the two options do you think is the best choice? Write down the reasons for your position.
2. Before discussing the situation with your group, and from the perspective of your assigned role, what are the underlying ethical issues in this situation? Write down the issues.
3. Gather the group together and reveal, in turn, each member's comments on the best choice of the two options. Next, reveal the ethical issues listed by each member.
4. Appoint someone to record the main points of agreement and disagreement within the group. How do you explain the results? What accounts for any disagreement?
5. From an ethical standpoint, what does your group conclude is the most appropriate action that should be taken by the company? (You may find the concepts of *utility*, *rights*, *justice*, and *caring* helpful in making your decision.)

For additional cases and exercise material, go to www.pearsoned.ca/mybusinesslab.

CONCLUDING CASE 3-1

The Problem of Consumer Skepticism

In recent years, a consensus seems to be developing that it is important to care for the environment. This “green movement” has motivated many companies to publicize what they are doing to be more eco-friendly. Coca-Cola, for example, pushed its new green image at the 2010 Winter Olympics with its “environmental call to action.” Market research suggested that Coke had a lot of work to do to polish up its green image, particularly among consumers in the 13–29 age group. Critics have accused Coke of wasting water (it takes 250 litres of water to make one litre of Coca-Cola), and creating a lot of waste for landfills (75 percent of plastic bottles that contain Coca-Cola products end up in landfills). Coke therefore developed a new, eco-friendly container (called the PlantBottle) that is made partly from sugar cane and molasses. The new bottle produces 30 percent fewer emissions because less oil is used in making it.



You might think that any attempt by a company to be more eco-friendly would be viewed positively by those who are concerned about protecting the environment. But that isn't necessarily the case. Skeptics say that the new Coke bottle really doesn't accomplish much because it is still mostly plastic. They note that even though plastic bottles are recyclable, most consumers just throw them out, so simply giving consumers access to plastic bottles is a bad idea.

The criticism that Coca-Cola is getting is not unusual. The fact is that almost any proposed green idea can become caught up in controversy that inhibits the progress of green practices. For example, consider the idea of green roofs (i.e., planting vegetation on the roofs of

buildings). Some companies have had green roofs for years (for example, the green roof on the Manulife Centre parkade in Toronto has been there for 25 years, and the trees are now three storeys high), but the idea is just now starting to really catch on. In May 2009, Toronto's city council passed a bylaw that mandates green roofs on new commercial buildings and high-rise residential buildings. Starting in 2010, such buildings had to have at least part of their roof space devoted to green plantings. It is estimated that a green roof of 350 square metres with 75 percent of its area covered in greenery would reduce the “heat-island effect” by 26 percent and reduce rainwater runoff by 38 percent. This sounds promising, but critics argue that the new bylaw may actually inhibit the progress of the green movement because it will increase building development costs and limit the options developers can choose from when they are trying to make buildings more environmentally friendly.

The bylaw is seen as one more problem that developers must solve before they can build. And during those periods when the economy is in a fragile state, that is a problem. The recession of 2008–09, for example, caused many businesses to put eco-friendly plans on hold. For example, Horizon Air, a U.S.-based airline, had planned to replace its regional jets with new Q400 turboprops made by Bombardier. The new planes burn 30 percent less fuel and therefore produce fewer emissions. But the economic slowdown forced the company to put those plans on hold. Another example: Clear Skies Solar cancelled plans to build a one-megawatt solar plant because it couldn't get enough financial backing. The plans were cancelled even though government grants are available for the development of solar power.

Consumer attitudes about eco-friendly behaviour can also limit the success of green products. A survey by the Boston Consulting Group in Toronto showed that one-third of Canadians say they often purchase environmentally friendly products, but 78 percent are unwilling to pay the higher price that is often charged for green products. Another online survey of 1000 Canadians showed that people are willing to do certain small things (for example, buying environmentally friendly light bulbs), but they are skeptical about adopting bigger measures. A third study, conducted by Procter & Gamble (P & G), showed that consumers are reluctant to spend more money just because a product is eco-friendly. Only 10 percent of consumers who were surveyed said they would pay a higher price (or accept a performance decrease) for a product that

would benefit the environment. What's worse, 75 percent said they would not accept *any* tradeoff. So, P & G is now focussing on developing sustainable innovation products that are more eco-friendly than earlier products but cost about the same price and have the same quality.

Another survey of 10 000 people from Canada and nine other countries analyzed the willingness of consumers to pay a premium for things like improved water quality, renewable (green) energy, and organic food. Here are some illustrative results:

- For improved water quality: On average, respondents were willing to pay a 7.5 percent premium on the median amount of their water bill.
- For renewable energy: Fifty percent of respondents said they weren't willing to pay *any* premium; forty-eight percent were willing (on average) to pay a 5 percent premium; two percent were willing to pay a 30 percent premium.
- For organic food: Thirty percent said they weren't willing to pay *any* premium; one-third said they would pay a premium between 1 and 5 percent; two percent were willing to pay a 50 percent premium.

The level of acceptance of green products has also been influenced by individuals who argue that the green movement has gone too far, and that too many consumers are suffering from "eco-obsessive-compulsive disorder"—an obsession with buying only green products. Skeptics argue, for example, that the green movement negatively affects economic growth and increases unemployment. One study in Spain showed that every "green" job that was created destroyed 2.2 jobs elsewhere in the economy. The study concluded that government spending on renewable energy was only half as effective at creating new jobs as an equivalent amount of spending by the private sector.

Consumers may also be reluctant to spend money on eco-friendly products because they are confused by the green claims that are being made by various companies. The Boston Consulting Group study mentioned above also found that consumers are confused about the green options that are available because there is such a wide array of eco-labels on products. Ecolabelling.org is a Vancouver-based company that has identified 274 eco-labels, 23 of them originating in Canada. There are labels touting compostable products, fair trade products, energy efficient products, forest stewardship products, lake-friendly products, and organic products. These eco-labels are supposed to help consumers sift through environmental claims, but what do these labels actually mean? How can shoppers know which products are really eco-friendly and which ones are simply hype? The only thing that seems reasonably certain is that consumers are willing to pay a price premium in the short run if it leads to obvious long-term gains (for example, an energy-efficient refrigerator costs more than a regular one, but it saves money in the long run via lower electric bills).

There are people who are trying to help consumers sort through the maze of conflicting claims. Dara O'Rourke is a university professor who has developed a website called GoodGuide that allows consumers to identify the ingredients found in the products they buy. The website reports on both the environmental impact of products as well as their health effects. Website visitors enter a product name and get a score. The higher the score, the safer and more environmentally friendly the product is. O'Rourke's goal is to help consumers get past the green claims of companies and look at the actual facts, with a view to changing the system: Instead of having companies telling consumers what to

believe about their products, the idea is to have consumers tell companies what is important to them in the products they buy.

Consumers may also become confused as they try to balance contradictory objectives about products. This problem can be clearly seen in automobile products. On the one hand, we need to sharply reduce carbon emissions by discouraging the use of gas-guzzling cars. This goal could be achieved by raising fuel-efficiency standards. But a study by the Boston Consulting Group concluded that fuel-saving improvements that reduce emissions by 40 percent would also raise the price of the average car by \$2000. On the other hand, the governments of both the U.S. and Canada are giving billions of dollars to Chrysler and General Motors in an attempt to save jobs at two companies that have historically produced gas-guzzling cars. These billions of dollars would move us toward the goal of reduced carbon emissions if Chrysler and General Motors could start producing green cars at prices consumers could afford, but industry experts say they can't (at least not in the near term). GM's all-electric car, the Volt, is too expensive to be purchased by many consumers, and GM's financial problems mean that it cannot risk the kind of money it formerly would have on a new product. It is also true that when gas prices are relatively low, consumers don't seem overly interested in green cars. Additionally, profit margins are small on green cars, and that is yet another limiting factor.

To cope with all this complexity, consumers need a good measure of ecological intelligence to help them make the distinction between style and substance in ecological claims. One proposal is for consumers to use something called Life Cycle Analysis, which calculates the carbon footprint of various activities (for example, a round-trip flight from Vancouver to Hong Kong, or a bouquet of flowers flown to Toronto from Kenya). But there is no guarantee that providing such detailed information would cause consumers to change their purchasing patterns. Organic foods and so-called "fair trade" products have been around for years, yet most people ignore them.

Questions for Discussion

1. Summarize in your own words the major factors that can inhibit the progress toward greener practices on the part of businesses and consumers.
2. Electric cars create far less pollution than cars powered by the internal combustion engine. In spite of this, however, it may be quite a few years before there are a lot of electric cars on the road. Why might this be so?
3. Consider the following statement: *It is not worthwhile to provide consumers with detailed information about the content of products or the carbon footprint of various activities because most consumers simply won't use the information. Consumers are struggling to get along financially from day to day, and they don't have the time or inclination to use such information.* Do you agree or disagree with the statement? Explain your reasoning.

Sources: Jeremy Cato, "It's Not Easy Buying Green," *The Globe and Mail*, July 15, 2011, p. D1; William Watson, "Green Except When It Costs," *National Post*, March 9, 2011, p. FP17; Lindsey Wiebe, "Logo La-La Land," *Winnipeg Free Press*, August 23, 2009, p. A7; Lindsey Wiebe, "Will Consumers Go For True 'Green' Products?," *Winnipeg Free Press*, August 2, 2009, (Books section), p. 6; Diane Katz, "The Grocery-Bag Dilemma: Is Paper or Plastic Greener?," *Winnipeg Free Press*, July 26, 2009, p. A11;

Susan Krashninsky, “The Green Gap,” *The Globe and Mail*, July 17, 2009, p. B4; “Beyond the Green Marketing Mirage; GoodGuide Supplies Instant Information on a Host of Products,” *National Post*, June 22, 2009, p. FP5; Terrence Belford, “Developers Blue Over Green Roofs,” *The Globe and Mail*, June 16, 2009, p. B10; David Ebner, “Coke Will Use The Olympics to Launch Its Latest Environmental Push, But Will a Generation That’s Grown Wary of ‘Greenwashing’ Buy the PlantBottle?,” *The Globe and Mail*, June 10, 2009, p. B1; William Watson, “The Uses of Eco-OCD,”

National Post, May 30, 2009, p. FP19; Jennifer Wells, “How Recession Changed the Green Marketplace,” *The Globe and Mail*, April 20, 2009, p. B1; Konrad Yakabuski, “Green Dreams, Unplugged,” *The Globe and Mail*, April 4, 2009, p. F1; Lawrence Solomon, “Green Economics: It Just Doesn’t Add Up,” *National Post*, March 31, 2009, p. FP11; Alia McMullen, “Will Green Agenda Fade?; In Tough Times, Environmental Action May Lose Its Momentum,” *National Post*, January 17, 2009, p. FP1; Joe Castaldo, “Green Counting,” *Canadian Business*, October 13, 2008, p. 27.

CONCLUDING CASE 3-2

The Debate over Global Warming Is Heating Up

Until just a few years ago, there seemed to be wide acceptance of the idea that air pollution and greenhouse gases were causing the temperature of the earth to rise, that human activity was the cause, and that serious problems were going to be evident in the future unless something was done to reduce carbon dioxide emissions. This was the position of the influential United Nations Intergovernmental Panel on Climate Change (IPCC). But the global warming consensus is suddenly being vigorously challenged. In 2011, for example, research conducted at the European Organization for Nuclear Research (and published in the prestigious journal *Nature*) demonstrated the importance of the sun in global warming. A full-scale debate is now in progress, even though just a few years ago anyone who questioned whether human-caused global warming was occurring was viewed as a crackpot.



The debate has heated up (pun intended) for a variety of reasons. First, hacked emails from the Climatic Research Unit at a British university purportedly showed that researchers had manipulated data in order to support their views about human-caused global warming. After the emails were made public, charges and counter-charges flew. A British investigation of the incident—which resulted in a 160-page report entitled “The Independent Climate Change Emails Review”—concluded that the researchers were not guilty of misconduct; it did note, however, that the researchers had withheld data, provided misleading information, and were not open to the possibility that their critics’ claims might have some merit. Overall, it has been difficult to determine whether unreasonable behaviour was actually evident, or whether critics were simply using the issue to argue that the supposed consensus on global warming was an illusion. One thing is clear: the incident caused both the media and the general public to start

wondering whether the issue of global warming was really “settled,” as many scientists had been claiming.

Second, the IPCC has made some fairly dramatic predictions during the past decade, and some of those predictions now look suspect. For example, one IPCC report predicted that the Himalayan glaciers would disappear within 30 years because of global warming. When it became apparent that this prediction was not based on scientific research, but rather on an unsubstantiated claim made by an environmental group, the IPCC lost some credibility.

Third, several global warming “deniers” have been loudly challenging the so-called “global warming consensus.” They point out, for example, that the global average temperature has stopped increasing in spite of the fact that carbon dioxide is still being released into the atmosphere. The deniers also challenge the assumption that human industrial activity is a cause of global warming. As part of their strategy, deniers carefully analyze statistics that are often cited by the media as support for the global warming consensus. For example, one research study found that 75 of 77 scientists (97 percent) supported the idea of human-caused global warming. But critics pointed out that, in fact, 10 257 scientists had been surveyed, and that reporting the views of a subset of only 77 was misleading, particularly since the views of solar scientists, cosmologists, physicists, and meteorologists were not reported. Deniers also argue that the assumptions underlying most climate models are not reasonable, and that running climate simulations based on flawed assumptions does not yield meaningful results.

Fourth, many governments are now moderating their position on global warming. The G8 meetings in 2009 were strongly in favour of actions being taken to combat global warming (for example, reducing global temperatures by two degrees), but the 2010 meetings were much more modest (for example, leaders made a commitment to “do their best” on climate change).

Fifth, more and more people are starting to think seriously about the issue of global warming. Many have concluded that it is impossible to predict what will happen in the global climate over the next 20 or 30 or 50 years because we simply do not yet have a level of understanding of climate dynamics that would allow us to make such predictions. One indication of consumer skepticism about global warming is found in answers to surveys. When asked questions such as “What do you think is the most important problem facing the country today?” very few people mention global warming.

Are there any conclusions we can reach about global warming? Let’s look briefly at the two key issues in the debate: (1) is global warming occurring?, and (2) is human activity the cause of global warming?

Is Global Warming Occurring?

A majority of scientists have concluded that global warming is real, and they point to data generated by the United Nations Intergovernmental Panel on Climate Change (IPCC), which shows that the average global temperature has risen about 0.6 degrees Celsius during the last century. Some scientists who agree that warming is occurring don't think the magnitude is as large as the IPCC claims; their main argument is that the IPCC data are contaminated and therefore exaggerate the amount of warming that has actually occurred.

To the untrained person, it might seem that measuring temperature is a pretty straightforward thing to do, but it is more complex than it appears at first glance. One problem is that the number and location of weather stations is constantly changing, so the comparability of weather data over time is not as good as scientists would like. Another problem is that the methods used to measure temperature change over time. For example, many years ago, the temperature of sea water was measured by lifting a bucket of sea water into a ship and then measuring the temperature of the water. Now, water is pumped into the engine room of a ship and then measured. But doing that might cause the reading to increase because of the warmer temperature in the engine room. Deciding *where* to measure temperature is another problem. Urban heating must be taken into account, but it is not clear what proportion of urban and rural sites should be included in temperature calculations.

Is Global Warming Caused by Human Activity?

Let us assume for the moment that global warming is a fact. The next obvious question is "What is causing global warming?" Many scientists argue that the rapid increase in carbon dioxide emissions that has occurred during the last 200 years is the cause of global warming. These emissions—which are the result of human industrial activity—trap heat in the atmosphere (the "greenhouse effect") and cause the temperature of the earth to rise. The views of scientists who hold this belief have been widely publicized, and many people accept them as fact. The IPCC has also concluded that greenhouse gases are the cause of global warming.

Other scientists have expressed skepticism about human-caused global warming. For example, Reid Bryson, emeritus professor of meteorology and one of the most-cited meteorologists in the world, says the idea that global warming is caused by the release of carbon dioxide into the atmosphere is absurd. He says that warming is occurring simply because we are still coming out of the "little ice age" of the early 1800s. More dramatically, Tad Murty, a professor in the Departments of Civil Engineering and Earth Sciences at the University of Ottawa, says that global warming is the biggest hoax ever perpetrated on humanity. He notes that there have always been cycles of warming and cooling.

Scientists who reject the idea that human activity is the cause of global warming make other, more general arguments. First, they point out that there have been variations in the earth's temperature in the distant past and that these variations couldn't possibly have been caused by human activity because there weren't any humans. Second, since the thermometer wasn't invented until 1602, we don't have a very long time period of accurate temperature records to examine as we look

for warming trends. Records going back thousands of years are needed before we can say with any confidence that a warming (or cooling) trend is actually occurring. Third, research shows that changes in the earth's climate correlate better with fluctuations in the brightness of the sun than they do with fluctuations in carbon dioxide levels. Analysis of core samples from the sediment in British Columbia fjords shows a consistent 11-year cycle in marine productivity which correlates closely with the known 11-year cycle of sunspots. Scientists predict that by the year 2020 the sun will be entering a phase of weaker output, and they conclude that a period of unusually cool temperatures is likely. Several other research studies of tree rings and freshwater river levels also strongly suggest that the sun drives climate change.

What Does All This Mean?

If the scientists who say that global warming is caused by human activity are right, we had better get moving on initiatives to reduce carbon dioxide emissions. But if the scientists who say that global warming is not caused by human activity are right, there isn't much that we can do about climate change. Regardless of whether global warming is human-caused or is a natural occurrence, there will be both winners and losers if the average global temperature goes up significantly. In Greenland, for example, rising temperatures mean that more pasture area can be grazed by sheep and cows, and a greater variety of vegetables can be grown than was formerly the case; this will improve Greenland's economic performance. But rising temperatures will also undermine the seal hunting by Greenland's Inuit because of thinning ice and may also cause a decline in polar bear populations.

Questions for Discussion

1. Given the information presented above, as well as other information you have read, do you think the evidence supports the argument that global warming is occurring?
2. Given the information presented above, as well as other information you have read, do you think the evidence supports the argument that global warming is caused by human activity?
3. List some additional winners and losers that are likely as a result of global warming.
4. Consider the following statement: *While there are some uncertainties about global warming, the problem is significant enough that we need to take immediate action to reduce carbon dioxide emissions. If we don't, in 40 or 50 years it will be too late.* Do you agree or disagree with the statement? Defend your answer.

Sources: Lawrence Solomon, "Science Now Settled: New, Convincing Evidence Indicates Global Warming is Caused by Cosmic rays and the Sun, Not Humans," *National Post*, August 27, 2011, FP17; David Evans, "Climate Models Go Cold; Carbon Warming Too Minor to be Worth Worrying About," *National Post*, April 8, 2011, FP15; Lawrence Solomon, "97% Cooked Stats; The 'Scientific Consensus' about Global Warming Turns out to have a Lot More to do with Manipulating the Numbers," *National Post*, January 4, 2011, FP7; Lawrence Solomon, "It's Official: There's No Consensus on Climate," *National Post*, July 10, 2010, FP19; Lawrence Solomon, "Catastrophism Collapses," *National Post*, July

3, 2010, FP19; Lawrence Solomon, “Junk Climate Poll Falls Apart,” *National Post*, June 22, 2010, FP11; Rick Salutin, “Climategate’s Not Evil, It’s Just Unhinged,” *The Globe and Mail*, December 11, 2009, A21; Ross McKittrick, “Contaminated Data,” *The National Post*, December 5, 2007; Lawrence Solomon, “Open Mind Sees Climate Clearly,” *The National Post*, June 29, 2007, p. FP15; Christopher Essex, “There is No Global Temperature,” *The National Post*, June 23, 2007, p. FP15; Timothy Patterson, “Read the Sunspots,” *The National Post*, June 20, 2007, p. FP17; Lauren Etter, “For Icy Greenland, Global Warming Has A Bright Side,” *The Wall Street Journal*, July 18, 2006, pp. A1, A12; Jared Diamond, *Collapse*. Penguin Books, 2005, pp. 493–494; Robert Park, *Voodoo Science*. Oxford University Press, 2000, pp. 31–34, 43–45; James Trefil, *101 Things you Don’t Know About Science and No One Else Does Either*. Boston: Houghton Mifflin, 1996, pp. 124–126, 142.

MyBusinessLab

To improve your grade, visit the MyBusinessLab website at www.pearsoned.ca/mybusinesslab. This online homework and tutorial system allows you to test your understanding and generates a personalized study plan just for you. It provides you with study and practice tools directly related to this chapter’s content. MyBusinessLab puts you in control of your own learning!

