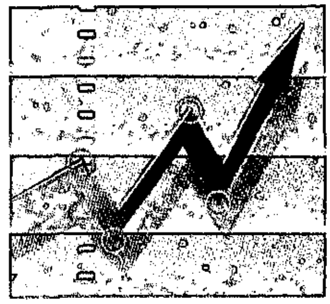
Business Today



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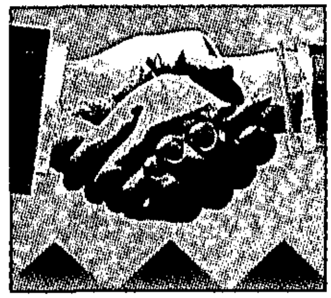

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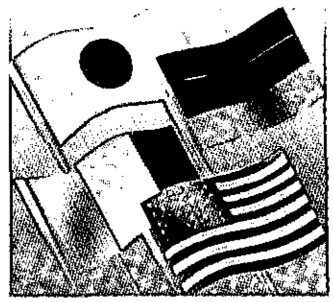

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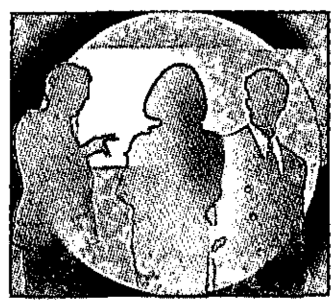

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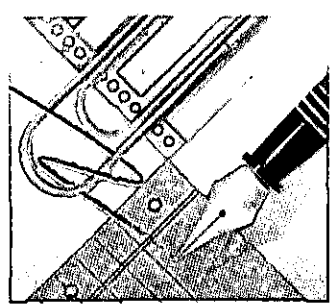

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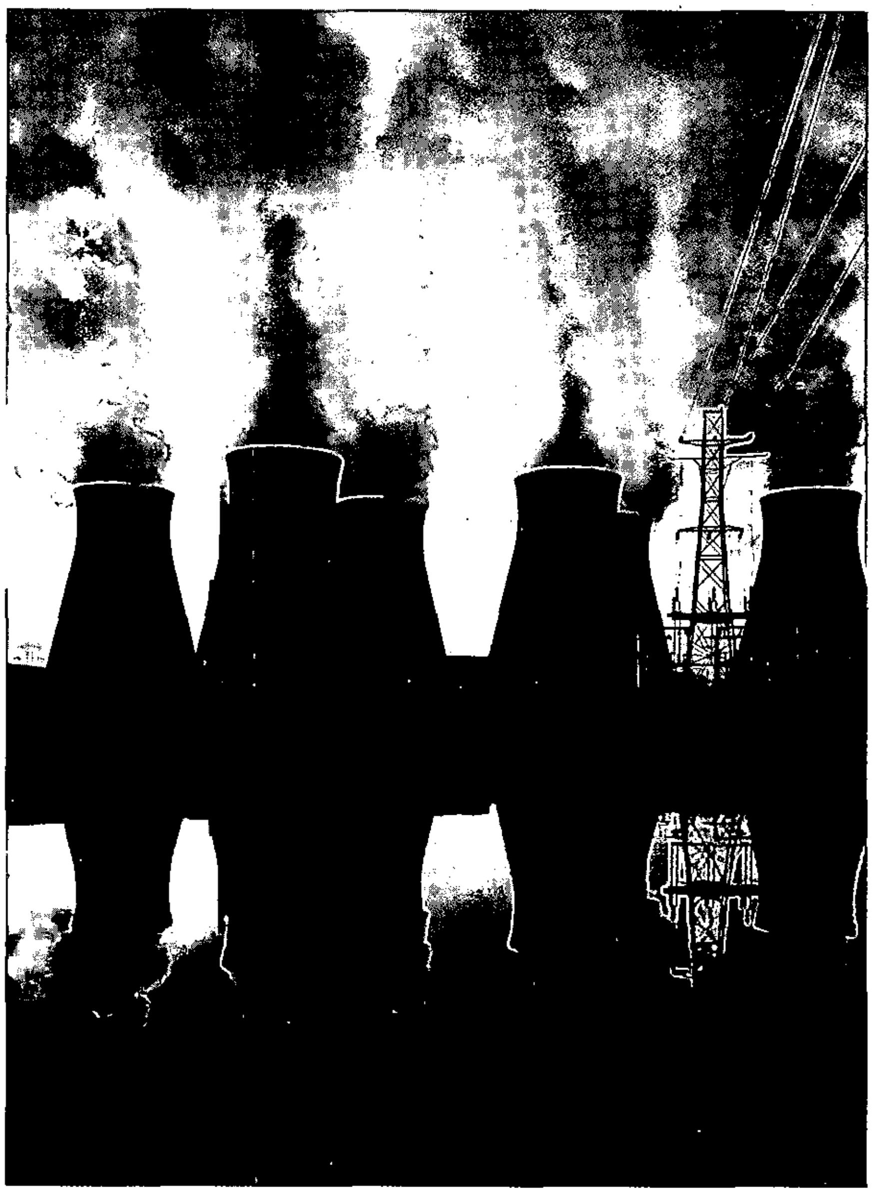
Contents in Brief

CHAPTER 4



LEARNING OBJECTIVES
After studying this chapter, you will be able to

1 Identify four groups to which business has a responsibility.

2 List and explain four philosophical approaches to resolving ethical questions in business.

3 Name three kinds of pollution, and outline actions to control each.

4 Specify the four rights of consumers.

5 State the responsibilities of the Equal Employment Opportunity Commission.

6 Identify four issues that are of particular concern to women in the workplace.

7 Delineate two general ways in which investors may be cheated of their rightful profits.

8 List six actions that companies are taking to meet their ethical and social responsibilities.

Ethical and Social Responsibilities of Business

Facing a Business Challenge at Ben & Jerry's Homemade

CAN A COMPANY BE PROFITABLE AND SOCIALLY RESPONSIBLE AT THE SAME TIME?

Ben & Jerry's Homemade makes more than premium ice cream; it makes an unusual effort to operate a business as a force for social change. The company has earned a nationwide reputation as an organization that stands apart in today's highly competitive, money-driven business environment. Making a profit seems to be less important to the founders than meeting the needs of employees and the surrounding community. And the company culture has always emphasized people, fun, and adventure.

Co-founders Ben Cohen and Jerry Greenfield intended to start an ice cream parlor, and once the business got going, sell it and move on. But there always seemed to be something that forced them to grow, such as a new competitor or the need to replace or fix equipment. Almost in spite of itself, the ice cream parlor became a growth company.

But growth brought increased profits and financial controls. The company was becoming less fun and more "businesslike." Cohen and Greenfield believed that if the company became like other corporations, they would have failed. So four years after starting the company, the two founders decided on a way to run it so that Ben & Jerry's Homemade would be a force for social change. The company would be held in trust for the community. Growth and profit would be a means to increased social responsibility, which would justify being more businesslike.

The co-founders' social responsibility goals are demonstrated in many ways. Of pretax profits, 7.5 percent goes to support social causes (the national average is 1.5 percent). The company is a leader in corporate recycling and environmental programs. Products are not only associated with peace, justice, and the environment, but they support these causes financially. For example, a percentage of sales from Peace Pops goes to promoting world peace. Rain Forest Crunch is made with nuts from the South American rain forest, which supports the native people directly and gives them a long-term financial incentive to nurture the forest rather than chop it down for lumber.

Today the company is a multimillion-dollar corporation, and double digit growth is once again challenging the culture and commitment to social change. There are now hundreds of people in the company, and not all of them share Cohen and Greenfield's idealism. The two founders worry that some managers have become too profit-oriented and that new projects are being evaluated for their ability to generate profit rather than social change. How can Cohen and Greenfield maintain their ideals as the company grows? What does it mean for a company to be socially responsible? Can a large corporation balance the desire to be socially responsible with the need to remain profitable?[1]

▶ FOUNDATIONS OF BUSINESS ETHICS

stakeholders Individuals or groups to whom business has a responsibility

As Ben Cohen and Jerry Greenfield realize, each company functions as part of an interactive system composed of various **stakeholders:** managers, owners, employees, consumers, and society at large. If a company's management consistently shortchanges any of these groups, the business will eventually cease to exist. Owners who are unhappy with the company's performance will withdraw their capital and invest it elsewhere. Workers whose needs are not met will quit and find other jobs. Consumers whose tastes and values are ignored will spend their money on other things. And if the concerns of society are disregarded, the voters will clamor for laws to limit offensive business activities.

Most business executives sincerely try to respond to the needs of these groups. Generally speaking, their efforts are successful. However, the interests of these groups sometimes conflict. When that happens, businesspeople are faced with a dilemma: how to reconcile competing interests. In trying to ensure profits, for example, a manager might be tempted to compromise product quality. Would the choice be justified? No, but it isn't always easy to know what's best.

The Evolution of Social Responsibility

Business ethics is more complicated than it used to be. Back in the "bad old days" before the turn of the century, the prevailing view among industrialists was that business had only one responsibility: to make a profit. Railroad tycoon William Vanderbilt summed up this attitude when he said, "The public be damned. I'm working for the shareholders."[2]

By and large those were not good times to be a low-level worker or an unwary consumer. People worked 60-hour weeks under harsh conditions for a dollar or two a day. The few bold people who tried to fight the system faced violence and unemployment. Consumers were not much better off. *Caveat emptor* was the rule of the day—"Let the buyer beware." If you bought a product, you paid the price and took the consequences. There were no consumer groups or government agencies to come to your defense if the product was defective or caused harm; if you tried to sue the company, chances were you would lose.

These conditions caught the attention of a few crusading journalists and novelists known as muckrakers. They used the power of the pen to stir up public

EXHIBIT 4.1 ▶ Early Government Regulations Pertaining to Business

Despite their reputation for being cold-blooded in business, many early tycoons were also philanthropists. For example, Andrew Carnegie, a pioneer in the steel industry, donated money to create public libraries in small towns throughout the United States. Nevertheless, government regulations were needed to ensure fair business practices.

GOVERNMENT REGULATION	DATE	EFFECT
Interstate Commerce Act	1887	Regulated business practices, specifically railroad operations and shipping rates.
Sherman Antitrust Act	1890	Fostered competition by preventing monopolies and noncompetitive mergers.
Pure Food and Drug Act	1906	Encouraged purity of food and drugs, specifically those transported across state lines.
Meat Inspection Act	1906	Encouraged purity of meat and meat products, specifically those transported across state lines.
Federal Trade Commission Act	1914	Controlled illegal trade practices through the creation of the Federal Trade Commission.
Clayton Act	1914	Eliminated price discrimination that gave large businesses an advantage over smaller firms.

indignation and agitate for reform. Largely through their efforts, a number of laws were passed to limit the power of monopolies and to establish safety standards for food and drugs (see Exhibit 4.1).

Despite these reforms, business continued to pursue profits above all else until the Great Depression. When the economic system collapsed in 1929, the public became disenchanted with business. With 25 percent of the work force unemployed, people lost their faith in unbridled capitalism, and pressure mounted for government to fix the system.

At the urging of President Franklin Roosevelt, Congress passed laws to protect workers, consumers, and investors. The Social Security system was set up, employees were given the right to join unions and bargain collectively, the minimum wage was established, and the length of the workweek was limited. Legislation was enacted to prevent unfair competition and false advertising, and the Securities and Exchange Commission was established to protect investors.

As the Depression drew to a close and World War II began, public confidence in business revived. Throughout the 1950s, the relationship among business, government, and society was relatively tranquil. But the climate shifted dramatically in the 1960s, as activism exploded on four fronts: environmental protection, national defense, consumerism, and civil rights. These movements have drastically altered the way business is conducted in the United States. Many of the changes have been instituted willingly by socially responsible companies, others have been mandated by government regulation, and still others have come about because of pressure from citizen groups.

But despite the efforts of various groups, public confidence in business remains low. Approximately two out of three people believe that business is not doing enough to provide job security for employees, help the community, keep the environment clean, price products fairly, and behave ethically.[3] Executives themselves also have doubts about the ethical standards of the business world. Eight out of ten upper-level managers think people are either occasionally or frequently unethical in their business dealings, and nearly one in four believes that ethical standards get in the way of career success.[4]

As stakeholders in their companies, today's employees have the right to bargain collectively. If negotiations break down, union members such as these telephone workers have the right to go on strike. When a company fails to meet the needs of its stakeholders, its prospects for success are dim.

The problem, some argue, is inherent in the nature of capitalism, which is based on the assumption that if people are free to pursue their own interests, they will all look out for themselves fairly effectively, and society as a whole will benefit. Thus the "invisible hand" of the market will juggle everyone's interests more effectively than laws or regulatory agencies. This assumption can be used to justify selfish behavior in business dealings and to support a "survival of the fittest" approach to ethical decisions.

Philosophical Bases for Social Responsibility

Although we tend to blame "business" for exerting a corrupting influence, in the final analysis, corporations are merely collections of individuals, each making choices with moral implications. If everyone behaves ethically, the organization as a whole will act in a responsible manner. The trick, then, is for each person to think through the consequences of his or her actions and make the "right" choice.

The trouble lies in determining what is "right" in any given situation. One approach is to measure each act against certain absolute standards. In our culture, these standards are generally derived from Judeo-Christian teachings: "Thou shalt not lie"; "Thou shalt not steal"; "Thou shalt not bear false witness against thy neighbor"; "Do unto others as you would have them do unto you." These principles provide the foundation for the laws and regulations of our society.

But rules have their limitations. Some situations defy clear-cut distinctions. In such situations, three other philosophical approaches are useful in identifying the "right" course of action: utilitarianism, individual rights, and justice.[5]

Utilitarianism

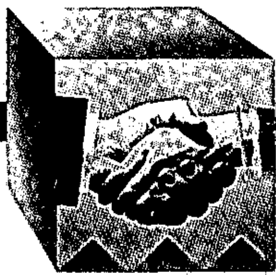
utilitarianism Philosophy used in making ethical decisions that aims to achieve the greatest good for the greatest number

According to the concept of **utilitarianism**, the "right" decision is the one that produces the greatest good for the greatest number of people. If you were a manager using this approach, you would try to figure out the impact of all the alternative actions on everyone concerned and then choose the alternative that created the most satisfaction for the most people. You would reject alternatives that catered to narrow interests or that failed to satisfy the needs of the majority. The value of this approach would depend on your skill in estimating the effect of your decisions. The challenge would lie in coming up with a decision that would benefit the most people.

Individual Rights

individual rights Philosophy used in making ethical decisions that aims to protect human dignity

Another approach is to be guided by a belief in the importance of **individual rights.** Because a belief in another person's rights implies that you have a duty to protect those rights, you would reject any decision that violated these rights. For example, you would not deceive people or trick them into acting against their own interests. You would respect their privacy and their right to express their opinion openly. You would not force people to act in a way that was contrary to their religious or moral beliefs. And you would not punish a person without a fair and impartial hearing. Although you might be guided by a desire to achieve the greatest good for the greatest number of people, you would reject any choice that violated the rights of even one person. In an era when individual workers expect and demand their rights, this philosophy is becoming a practical necessity. In dealing with issues related to AIDS or drug testing, for example, companies are trying to honor the individual's right to privacy without jeopardizing the group's rights to a safe working environment. In the last few years, in fact, the concept of individual human rights has been broadened to encompass the protection of plants, animals, land, water, air, and other natural elements of the environment.



FOCUS ON ETHICS

How Do Your Ethics Measure Up?

The solutions to many day-to-day questions in business are not simply right or wrong. Rather, they fall into a gray area. To demonstrate the perplexing array of moral dilemmas faced by businesspeople, here is a "nonscientific" test. Give it a try, and see how you score. In the space to the right of each statement, mark 0 if you strongly disagree, 1 if you disagree, 2 if you agree, and 3 if you strongly agree.

1. It's okay to withhold negative information about a product in order to make a big sale as long as the negative aspect isn't dangerous or life-threatening. ____

2. There are times when a manager must overlook contract and safety violations in order to get on with the job. ____

3. It is not always possible to keep accurate expense records. Therefore, it is sometimes necessary to give approximate figures. ____

4. There are times when it is necessary to withhold embarrassing information from the boss. ____

5. We should do what our managers suggest, even though we may have doubts about its being the right thing to do. ____

6. It is sometimes necessary to conduct personal business on company time. ____

7. Taking a friend to lunch and charging it to the company as a business expense is acceptable as long as the bill is reasonable and doing so doesn't become a regular habit. ____

8. I would quote a "hopeful" shipping date to get an order. ____

9. It is proper to use the company WATS line for personal calls as long as it's not being used for company business. ____

10. Management must be goal-oriented. Therefore, the end usually justifies the means. ____

11. If providing heavy entertainment and twisting company policy a bit would win a large contract, I would authorize it. ____

12. Exceptions to company policy and procedures are a way of life. ____

13. Inventory controls should be designed to report "underages" rather than "overages" in goods received. ____

14. Occasional use of the company's photocopying machine for personal or community activities is acceptable. ____

15. Taking home company property (pencils, paper, tape, and the like) for personal use is an accepted fringe benefit. ____

If your total score is:

0	Possible saint
1–5	Bishop material
6–10	High ethical values
11–15	Good ethical values
16–25	Average ethical values
26–35	Deficient ethical development
36–44	In trouble
45	Possible jailbird

Justice

justice Philosophy used in making ethical decisions that aims to ensure the equal distribution of burdens and benefits

In making your decisions, you might also apply criteria based on the principles of **justice.** These principles include a belief that people should be treated equally, that rules should be applied consistently, and that people who harm others should be held responsible and make restitution. A just decision, then, is one that is fair, impartial, and reasonable in light of the rules that apply to the situation.

These three approaches are not mutually exclusive alternatives. On the contrary, most people combine them to reach decisions that will satisfy as many people as possible without violating any person's rights or treating anyone unjustly. In applying these philosophical principles, companies must balance the needs of the various groups that have a stake in our economic system: the community and its environment, consumers, workers, and investors.

▶ BUSINESS AND THE ENVIRONMENT

The difficulty of this balancing act becomes apparent when you consider the case of Bofors Nobel, a manufacturer of paint pigments. The company disposed of the wastes from the manufacturing process on 68 wooded acres behind its plant in Muskegon, Michigan. When the government ordered the firm to clean up the site, the estimated cost came to $60 million. With annual sales of only $30 million, Bofors opted to close its doors.[6] Now the company is out of business, its customers are scrambling to line up new sources of pigment, the employees are out of work, and the toxic waste remains. In a situation like this, there are no winners.

The Pervasiveness of Pollution

pollution Threats to the physical environment caused by human activities in an industrial society

Toxic wastes are not the only form of **pollution** threatening our environment. Our air, our water, and our land are all paying dearly for our economic progress.

Air Pollution

As a resident of the United States, the chances are two out of three that you breathe air that fails to meet the standards of the Environmental Protection Agency (EPA).[7] How bad is this air? Bad enough to cause 50,000 premature deaths each year; bad enough to add an extra $10 billion to $25 billion annually to the nation's health-care bills.[8] Potentially bad enough to jeopardize the ecosystem and make the earth uninhabitable.

On a day-to-day basis, the most noticeable form of air pollution is probably smog, which is produced by the interaction of sunlight and hydrocarbons (gases released when fossil fuels are burned). On especially smoggy days, your eyes burn, your throat feels sore, and if you suffer from a respiratory disease, your activities are restricted.

Another sort of air pollutant is rain that has a high acid content, created when nitrous oxides and gaseous sulfur dioxide react with air. This "acid rain" has been blamed for damaging lakes and forests in southeastern Canada and the northeastern United States. Most of the harmful emissions come from coal-burning factories and electric utility plants.

Apart from contributing to acid rain, coal emissions have another disadvantage: They may contribute to a "greenhouse effect." The heated gases form a layer of unusually warm air around the earth, which traps the sun's heat and prevents the earth's surface from cooling. Some scientists believe that the greenhouse effect will eventually cause dramatic changes in the earth's climate, including a general increase in temperature, changes in rainfall, and a rise in the level of the oceans.

Another long-term threat of unknown proportions is the depletion of the earth's protective ozone layer caused by chlorofluorocarbons (CFCs), which are used as industrial cleansers, refrigerants, and ingredients in insulation and foam packaging. Scientists fear that if the ozone layer continues to deteriorate, the effects of the sun's rays will be magnified, increasing the incidence of a deadly form of skin cancer.

An air-pollution problem with more immediate health implications is posed by the airborne toxins that are emitted into the atmosphere during some manufacturing processes. Large corporations release some 2.7 billion pounds of these chemical wastes into the air each year, and small companies probably add a good deal more.[9] Although the effects of many of these substances are unknown, some are clearly carcinogens (cancer-causing agents).

Business Around the World

In countries such as Egypt, the World Health Organization is investigating the spread of a debilitating disease through stagnant irrigation canals. Although the irrigation systems were built to increase agricultural production, the disease has cut worker output by as much as 35 percent.

Water Pollution

Our air is not the only part of our environment to suffer. Approximately 10 percent of our river and lake water is polluted.[10] In some areas, the harbors and coastal waters are in trouble as well. This pollution comes from a variety of sources: manufacturing facilities, mining and construction sites, farms, and city sewage systems. Although dramatic accidents like the *Exxon Valdez* oil spill in Alaskan waters capture our attention, the main threat is the careless day-to-day disposal of wastes from thousands of individual sources.

Land Pollution

Even if all wastewater were purified before being discharged, our groundwater would still be endangered by leakage from the millions of tons of hazardous substances that have been buried in the ground or dumped in inadequate storage sites. The cost for cleaning up U.S. toxic waste sites could eventually exceed $500 billion.[11] Many of these sites were created years ago by companies that carelessly—but legally—disposed of substances that are now known to cause cancer and other illnesses. Although some experts believe that 90 percent of these sites pose little health risk, the fact remains that nobody knows for sure just how dangerous they are. What is certain is that they are extremely difficult to clean up.

Government and Industry Response

Today an overwhelming majority of people in the United States consider themselves environmentalists. In fact, by a ratio of six to one, they want to reduce pollution even if it means paying higher prices.[12] Politicians and business executives are well aware of this fact, and they're responding accordingly.

Concern for the environment has gradually increased since the 1960s, when **ecology**, or the balance of nature, became a popular cause. In 1963 federal,

ecology Relationship among living things in the water, air, and soil, as well as the nutrients that support them state, and local governments began to enact laws and regulations aimed at reducing pollution. (A brief summary of major federal legislation appears in Exhibit 4.2.) But the bedrock legislation underlying federal efforts to control pollution is the National Environmental Policy Act of 1969, which established a structure for coordinating all federal environmental programs. This act was followed by a presidential order in December 1970, which established the Environ-

EXHIBIT 4.2 ▶ Major Federal Environmental Legislation

LEGISLATION	DATE	EFFECT
National Environmental Policy Act	1969	Established a structure for coordinating all federal environmental programs.
Order of Administrative Reorganization	1970	Established Council on Environmental Quality to advise president on environmental policy and to review environmental impact statements. Led to formation of Environmental Protection Agency and consolidation of federal activities under it.
AIR POLLUTION		
Clean Air Act	1963	Authorized assistance to state and local governments in formulating control programs. Authorized limited federal action in correcting specific pollution problems.
Clean Air Act amendments (Motor Vehicle Air Pollution Control Act)	1965	Authorized federal standards for auto-exhaust emissions. Set standards for 1968 models and thereafter.
Air Quality Act	1967	Authorized federal government to establish air-quality control regions and to set maximum permissible pollution levels. Required states and localities to carry out approved control programs or else give way to federal controls.
Clean Air Act amendments	1970	Authorized EPA to establish nationwide air-pollution standards and to limit the discharge of six principal pollutants into the lower atmosphere. Authorized citizens to take legal action to require EPA to implement its standards against undiscovered offenders.
Clean Air Act amendments	1977	Postponed auto-emission requirements. Required use of scrubbers in new coal-fired power plants. Directed EPA to establish system to prevent deterioration of air quality in clean areas.
Clean Air Act amendments	1990	Established schedule and standards for cutting smog, acid rain, hazardous factory fumes, and ozone-depleting chemicals.
SOLID-WASTE POLLUTION		
Solid Waste Disposal Act	1965	Authorized research and assistance to state and local control programs.
Resource Recovery Act	1970	Subsidized construction of pilot recycling plants; authorized development of nationwide control programs.
Resource Conservation and Recovery Act	1976	Directed the EPA to regulate hazardous-waste management, from generation through disposal.
Surface Mining and Reclamation Act	1976	Controlled strip mining and restoration of reclaimed land.
Resource Conservation and Recovery Act amendments	1984	Amended Solid Waste Disposal Act. Provided technical and financial assistance for recovery of energy and other resources from solid waste; regulated treatment, storage, transportation, and disposal of hazardous waste.

mental Protection Agency (EPA) to regulate air and water pollution by manufacturers and utilities, supervise auto-pollution control, license pesticides, control toxic substances, and safeguard the purity of drinking water.

The EPA's effectiveness has waxed and waned over the past 20 years, depending on who's in power in Washington, D.C. After slipping in influence during the Reagan years, the agency has regained some ground under the Bush administra-

LEGISLATION	DATE	EFFECT
WATER POLLUTION		
Refuse Act	1899	Prohibited dumping of debris into navigable waters without a permit. Extended by court decision to industrial discharges.
Federal Water Pollution Control Act	1956	Authorized grants to states for water-pollution control. Gave federal government limited authority to correct specific pollution problems.
Water Quality Act	1965	Provided for adoption of water-quality standards by states, subject to federal approval.
Water Quality Improvement Act	1970	Provided for federal cleanup of oil spills. Strengthened federal authority over water-pollution control.
Federal Water Pollution Control Act amendments	1972	Authorized EPA to set water-quality and effluent standards; provided for enforcement and research.
Safe Drinking Water Act	1974	Set standards for drinking-water quality.
Clean Water Act	1977	Ordered control of toxic pollutants by 1984 with best available technology that is economically feasible.
Water Quality Act	1987	Extended the current program of grants for sewage-treatment projects. Required states to develop and implement programs to control "nonpoint" sources of pollution (rainfall runoff from farm and urban areas, forestry, and mining sites).
OTHER POLLUTANTS		
Federal Insecticide, Fungicide and Rodenticide Act	1947	To protect farmers, prohibited fraudulent claims by salespersons. Required registration of poisonous products.
Federal Insecticide, Fungicide and Rodenticide Act amendments	1967, 1972	Provided new authority to license users of pesticides.
Pesticide Control Act	1972	Required all pesticides shipped in interstate commerce to be certified as effective for their stated purposes and harmless to crops, animal feed, animal life, and humans.
Noise Control Act	1972	Required EPA to set noise standards for major sources of noise and to advise Federal Aviation Administration on standards for airplane noise.
Pesticide Control Act amendments	1975	Set 1977 deadline (not met) for registration, classification, and licensing of many pesticides.
Toxic Substances Control Act	1976	Required testing of chemicals; authorized EPA to restrict the use of harmful substances.
Comprehensive Environmental Response, Compensation, and Liability Act	1980	Commonly called "Superfund Act"; created a trust fund (paid for in part by toxic-chemical manufacturers) to clean up hazardous-waste sites.
Superfund Amendments and Reauthorization Act	1986	Established schedules for clean-up and preferences for types of clean-up actions.

tion. Its current efforts are based on the premise that more will be accomplished by working with business to clean up and prevent pollution than by taking an adversarial stance. To an increasing degree, the EPA is moving away from a command/control posture toward a free-market approach, which emphasizes incentives for doing the right thing as well as punishment for doing the wrong thing. For example, in certain cities companies can buy and sell pollution rights. Each company is given an allowable "pollution quota" based on such factors as its size and industry. If a company voluntarily reduces pollution below its limit, it can sell its "credits" to another company. Although granting companies the right to pollute might seem counterproductive, it encourages them to clean up their operations as quickly and as thoroughly as possible. Ultimately, a national or even a global market could exist for trading pollution credits.[13]

The current approach to pollution control recognizes that the health threat posed by a given industrial pollutant must be weighed against the economic cost of limiting or eliminating its use. Many activities that cause pollution also produce socially desirable results. The waste dumps, factories, power plants, and pesticides that threaten the environment almost always meet a legitimate social need. Long-term solutions lie in giving business the motive and opportunity to find alternative ways to meet those needs.

One of the most promising new directions is emphasizing prevention as opposed to correction. Pioneering companies are reducing the flow of pollutants into the environment—and lowering their cleanup bills—by using alternative materials, changing production techniques, redesigning products, and recycling wastes. Since 1975, 3M has launched 2,500 projects aimed at reducing pollution. Far from costing the company money, these projects have actually saved $1 billion.[14]

Progress Toward Cleaner Air

The one good thing you can say about air quality in the United States is that it could be a lot worse. In the past 20 years, some modest progress has been made toward cleaner air, thanks to government standards and industry's efforts to comply. Companies are currently spending some $35 million per year to combat air pollution.[15] Cars account for 40 percent of our smog problem and are 96 percent cleaner than they were prior to 1970.[16] Factory emissions that contribute to smog and acid rain have declined. An agreement among 24 nations to limit the production of chlorofluorocarbons should help reduce the threat to the ozone layer. The fight against toxic chemical emissions is getting a boost from the passage of the Emergency Planning and Community Right-to-Know Act, which requires businesses to report the amount of toxic chemicals they release into the air, land, and water.

Preparing this information has been an eye-opener for many companies. When Richard Mahoney, chairman of Monsanto, saw how much toxic waste the company was generating, he was flabbergasted. He decreed that Monsanto would voluntarily cut toxic emissions by 90 percent. In the process of meeting that goal, Monsanto—like many other large companies—has discovered ways to save money and clean up the environment simultaneously by improving production processes and by recycling chemicals that used to pose a disposal problem. For example, one of the company's nylon fiber plants has cut its toxic air emissions by 90 percent since 1987 by capturing a toxic solvent in a mineral oil bath before it goes up the smokestack. Recycling the solvent saves the company several million dollars a year in raw material costs.[17]

In 1990 Congress passed a series of tough new amendments to the 1970 Clean Air Act. The sweeping measure calls for cuts in smog, acid rain, toxic emissions, and ozone-depleting chemicals. Businesses are required to phase in improvements through the year 2005. The legislation differs from previous laws in several important respects that should contribute to its effectiveness. For one thing, it applies to small companies as well as large ones. Believe it or not, local dry cleaners, bakeries, and other seemingly innocent businesses are a significant source of air pollution. Another important aspect of the new law is that instead of requiring companies to reduce pollution to virtually zero, it requires them to achieve whatever level of purity can be attained using the best technology available. This provision puts an end to a controversy over the meaning of "negligible health risk" that has tied up the implementation of previous laws.

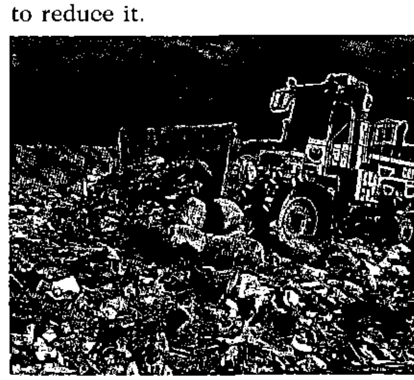
Experts project that by the year 2005, the new law should knock out 75 to 90 percent of the pollutants being released into the air.[18] However, progress has a price. The cost to industry may run as high as $25 billion per year by early in the next century. Opponents of the measure contend that profits and jobs will be lost and that the economy as a whole will suffer. On the other hand, given the circular flow of money, one company's expenditures become another company's revenues, so the net economic effect may not be all that severe.[19]

The Battle for Cleaner Water

Since the passage of the Water Quality Act of 1965, the federal government has invested over $50 billion in the fight against water pollution, while state and local governments have contributed at least half again as much. Much of this money has been used to upgrade sewage systems, which handle wastes from homes and businesses alike. These improvements have gone a long way toward cleaning up harbors, lakes, and rivers that formerly served as cheap dumping grounds for raw sewage. One notable exception is the ocean off Cape May, New Jersey, which serves as the disposal site for sludge from both New York City and New Jersey.[20]

Industry has also made a major investment in treating wastewater. Factories that used to dump toxic chemicals into nearby waterways are discouraged from doing so by the National Pollutant Discharge Elimination System, which requires any company that pumps fluid into a river or lake to obtain a permit. However, even though this system has effectively stopped "point-source" pollution from industry, it does nothing to control nonpoint pollution—the runoff from farms and streets that accounts for 65 percent of the stream pollution in the United States.[21]

Before you blame business for all of our environmental problems, consider that the average person in the United States discards 1,300 pounds of garbage a year. We are rapidly running out of places (like this dump in Phoenix, Arizona) to discard our trash. The answer to the solid-waste problem is not figuring out how to burn it or compact it; the answer is to reduce it.



The War on Toxic Waste

For years, many industrial wastes were routinely dumped in landfills, whose protective barriers (if any) could not be counted on to prevent dangerous chemicals from leaking into the soil and eventually into the water supply. In 1980 Congress established the so-called Superfund to clean up the 1,189 most hazardous of these old dumps. The initial fund, financed by a special tax on chemical manufacturers, has received several additional transfusions of taxpayer money, bringing total government funding so far to $15.2 billion. When a site is targeted for cleanup, the EPA encourages the parties responsible for the pollution to pay the bill. If an agreement can't be reached up front, the cleanup is paid for out of the Superfund, and the EPA then tries to recover the costs by suing the companies most responsible for the environmental damage. These companies, in turn, may sue other parties that were involved in owning, operating, or sending wastes to the site. All too often, the effort to parcel out the burden of responsibility leads to lawsuits among hundreds of companies, tying up the cleanup effort for years. Companies generally end up paying about 60 percent of the cleanup costs, and the government pays the rest. Each site costs an average of $30 million to restore.[22]

Results to date have been discouraging. It's taken over 10 years to remove 60 sites from the Superfund list. There's a question, however, about whether the groundwater in some sites can ever be restored to drinking-water purity—the standard imposed by a 1986 amendment to the Superfund law. Some 19 locations that improved after initial treatment have subsequently reverted to a contaminated state. A more practical approach, some argue, would simply be to contain the damage, since only 11 percent of the sites pose a potential health threat to residents in a finite area.[23]

Although old sites will be a continuing problem far into the future, industry is making progress in reducing new hazardous-waste contamination. For one thing, more companies are now dumping wastes in their own controlled and environmentally sound sites, and fewer are leaving their wastes to independent disposal firms, which are notorious for illegal dumping. In addition, manufacturers are trying out several other methods of eliminating or neutralizing their hazardous by-products. Some use high-temperature incineration, some recycle wastes, some give their wastes to other companies that can use them (sometimes getting in return wastes *they* can use), some neutralize wastes biologically, and some have redesigned their manufacturing processes so that they don't produce the wastes in the first place.

▶ BUSINESS AND CONSUMERS

The activism of the 1960s that awakened business to its environmental responsibilities also made companies more sensitive to consumers. Crusaders such as Ralph Nader, author of *Unsafe at Any Speed,* shocked the public with exposés about poorly designed, unsafe, and unhealthful products. In response to the consumer movement, a number of businesses created their own consumer-affairs departments to handle customer complaints, and state and local agencies set up bureaus to provide consumer information and assistance. At the federal level, President John F. Kennedy announced a new "bill of rights" for consumers, which laid the foundation for a wave of consumer-oriented legislation (see Exhibit 4.3 on pages 102–103). These rights include the right to safety, the right to be informed, the right to choose, and the right to be heard.

The Right to Safety

The federal government imposes many safety standards, which are enforced primarily by the Consumer Product Safety Commission (CPSC), an agency created in 1972 to monitor the safety of some 15,000 products sold to consumers. Standards for some products, such as automobiles, drugs, foods, and medical devices, are established and monitored by special agencies. In addition, state and local agencies have regulations of their own.

Theoretically, companies that fail to comply with these rules are forced to take corrective action. However, many consumer advocates complain that a wide array of unsafe products slip through the cracks because the various regulatory agencies lack the resources to do an effective job. Roger Burrows is the lone CPSC inspector in San Diego, California, one of the 10 largest cities in the country. Burrows not only investigates all complaints received by the local CPSC office but also does spot checks to be sure the city's 27,000 retailers are selling safe products. His investigations of accidents involving all-terrain vehicles and lawn darts were instrumental in the nationwide banning of those two products.[24]

But even without government action, manufacturers are motivated to meet safety standards by the threat of product liability suits and declining sales. A poor safety record can do grave damage to a company's reputation. Consider the case of the Audi 5000 sedan, which reportedly is prone to sudden, violent acceleration when the transmission is put into drive. After a report on the problem was aired on "60 Minutes," Audi's sales plunged, declining by almost half in two years. Although Audi initially blamed the problem on inept drivers, it was ultimately forced to recall the car and modify the transmission. The firm has discontinued the Audi 5000 and is introducing new models, but according to industry experts, "It'll take five years to repair the damage" to Audi's reputation.[25]

The Right to Be Informed

One possible way to protect the safety of consumers is to explain any product risks on the label. If the danger is great enough, a warning label is required by law, as in the case of cigarettes. But warning labels can be a mixed blessing for consumers. To some extent, the presence of a warning protects the manufacturer from product-liability suits, but the label may do little to deter people from using the product. The warning labels on toys are a case in point. Every year, roughly 12,000 children are seriously injured by toys, many of which are clearly labeled "Not recommended for children under three years of age."[26]

Regardless of whether a product is harmful, however, consumers have a right to know what is in it and how to use it. At the same time, they have a right to know the costs of goods or services and the details of any purchase contracts. Over the years, the government has created a variety of rules and regulations that prevent companies from making false or misleading claims about the ingredients, features, or prices of their products and services.

During most of the last decade, the agencies responsible for labeling (the Food and Drug Administration, the Federal Trade Commission, and the Agriculture Department) were squarely aligned with the supporters of deregulation. But the laissez-faire policies of the recent past are fading. The Nutritional Education and Labeling Act of 1990 is now the basis for reregulating food labeling: The Surgeon General's office is leading an interagency task force to revamp the warning labels on alcohol, the FDA is cracking down on the food industry's use of false or misleading claims on labels, the FTC is investigating the unsupportable claims made by liquid-diet manufacturers, and the Agriculture Department is working on new labels for meat and poultry.

These agencies are concerned not only with safety but also with accurate information. For example, the FDA is seeking consistency in serving sizes (so that consumers can compare equal quantities), it's clarifying label language (so that consumers will know what terms such as *light* and *ultralight* really mean), and it's investigating the accuracy of health claims (so that consumers can identify which products are truly good for them). The FDA has made a few high-profile assaults on companies that were making misleading claims. For example, it seized shipments of Procter & Gamble's Citrus Hill Fresh *(continued on p. 104)*

This display of fruit and vegetables at Norman's in Miami looks healthful, doesn't it? But before you bite into any of the fruit, you might ask where it comes from. Of the 30 billion pounds of food imported into the United States each year—fresh, canned, packaged, or frozen—only 2 percent is tested by the FDA for bacteria and other impurities. Of the products tested, 40 percent fail to meet FDA standards.

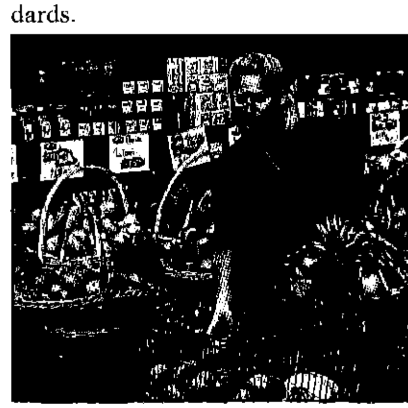


EXHIBIT 4.3 ▶ Major Federal Consumer Legislation

LEGISLATION	DATE	EFFECT
FOOD AND DRUGS		
Food and Drugs Act	1906	Forbade adulteration and misbranding of food/drugs in interstate commerce.
Meat Inspection Act	1906	Authorized Department of Agriculture to inspect slaughtering, packing, and canning plants.
Federal Food, Drug, and Cosmetic Act	1938	Added cosmetics and therapeutic products to Food and Drug Administration's jurisdiction. Broadened definition of misbranding to include "false and misleading" labeling.
Delaney Amendment to the Food, Drug, and Cosmetic Act	1958	Prohibited use as food additive of any chemical found to induce cancer.
Kefauver-Harris Drug Amendments to Food and Drug Act	1962	Required manufacturer to test safety and effectiveness of drugs before marketing them and to include common or generic name of drug on label.
Wholesome Meat Act	1967	Strengthened standards for inspection of slaughterhouses of red-meat animals.
Orphan Drug Act	1983	Established incentives (such as tax credits, grants, and contract support) and granted exclusive marketing rights to promote the development of drugs for rare diseases and conditions.
Drug Price Competition/Patent Term Restoration Act	1984	Established abbreviated application procedure for generic versions of "pioneer" drugs; eliminated requirement for expensive retesting of generic equivalents of brand-name drugs developed after 1962.
Amendment to Orphan Drug Act	1985	Extended federal incentives to promote the development of drugs for rare diseases and conditions.
Nutrition Education and Labeling Act	1990	Required specific, uniform labels detailing nutritional information such as caloric levels, fat content, and cholesterol amounts in food items to be included on product labels; prohibited manufacturers from making certain nutritional claims about their products on the label when other equally important information (such as cholesterol level) has not been mentioned.
Pesticide Safety Improvement Act	1990	Required continuous updating of information on safety of pesticides, established user training, and set new registration standards.
Food, Agriculture, Conservation, and Trade Act	1990	Prevented the export of pesticides banned for use in the United States (to abolish U.S. pesticides showing up in food imported for U.S. consumption).
MISBRANDING AND FALSE OR HARMFUL ADVERTISING		
Wheeler–Lea Act	1938	Enlarged Federal Trade Commission's powers to cover deceptive practices in commerce and false advertising of foods, drugs, and cosmetics.
Wool Products Labeling Act	1939	Required fabric labeling (percentage of fabric components, manufacturer's name).
Fur Products Labeling Act	1951	Required that fur labels name animals of origin.
Textile Fiber Products Identification Act	1958	Prohibited misbranding and false advertising of fiber products not covered in the wool or fur labeling acts.

LEGISLATION	DATE	EFFECT
MISBRANDING AND FALSE OR HARMFUL ADVERTISING		
Federal Hazardous Substances Act	1960	Required warning labels to appear on items containing dangerous household chemicals.
Fair Packaging and Labeling Act	1966	Required honest, informative package labeling. In 1972, added requirement that labels show origin of product, quantity of contents, representation of servings, uses and/or applications.
Public Health Cigarette Smoking Act	1970	Banned cigarette advertising on radio and TV; strengthened required warning on packaging.
Country of Origin Labeling Act	1985	Required all items of clothing to carry a label indicating the country of origin.
PRODUCT SAFETY		
Flammable Fabrics Act	1953	Prohibited interstate shipment of apparel or fabric made of dangerously flammable materials.
Traffic and Motor Vehicle Safety Act	1966	Required manufacturers to notify purchasers of new cars of safety defects discovered after manufacture and delivery.
Child Protection and Toy Safety Act	1969	Provided greater protection from children's toys with dangerous mechanical or electrical hazards.
Poison Prevention Packaging Act	1970	Required manufacturers to use safety packaging on products that may be harmful to children.
Consumer Product Safety Act	1972	Created Consumer Product Safety Commission, an independent federal agency, and empowered it to set safety standards for certain products, such as power lawn mowers and children's toys; to require warning labels on unsafe products; and to order recalls of hazardous products.
CREDIT PROTECTION		
Truth-in-Lending Act (Consumer Protection Credit Act)	1968	Required creditors to inform individuals obtaining credit of the amount of the finance charge and the percentage rate of interest charged annually. Limited credit card holders' liability in unauthorized use.
Fair Credit Reporting Act	1970	Required agencies reporting consumer credit data to follow procedures assuring accuracy of their information. Required users of this information, upon withholding credit, to inform consumer of source of this information.
Magnuson-Moss Warranty Act	1975	Required all warranties to be written in ordinary language, to contain all terms and conditions of the warranty, and to be made available prior to purchase to facilitate comparison shopping.
Home Mortgage Disclosure Act	1975	Required banks and savings and loan associations to compile and make public information on mortgage loans that they make and the locations of those loans.
Fair Debt Collection Practices Act	1978	Prohibited deceptive and unfair debt-collection practices: calling at inconvenient or unusual times; harassing, oppressing, or abusing any person; making false statements when collecting debts.

orange juice, arguing that "fresh" is a misnomer for a product made from concentrate. It is also cracking down on the use of such claims as "low in cholesterol," "light," and "high in fiber."[27]

The Right to Choose

Business responds very well to the right to choose: The number of products available to consumers is truly amazing. But how far should this right extend? Are we entitled to choose products that are harmful—cigarettes and liquor, for example? Or sugar-coated cereal? Or rock music with suggestive lyrics? And to what extent are we entitled to learn about these products? Should beer and wine ads be eliminated from TV, as ads for other types of alcoholic beverages have been? Should advertising aimed at children be banned?

These are some of the issues that consumer groups are concerned about. No clear answers have been found. Generally speaking, however, business is sensitive to these issues. Recent public concern about drunk driving, for example, has led the liquor industry to encourage responsible drinking. Similarly, the movie industry has instituted a rating system to help the public gauge whether a film is appropriate for a particular audience. Like those in the liquor and movie industries, most U.S. businesspeople would rather help consumers make informed choices than be told what choices they can offer.

The Right to Be Heard

A final consumer right is the right to be heard. Here again, most businesses are extremely responsive. Over half of all companies with sales of over $10 million have toll-free consumer information numbers.[28] Most actively encourage feedback from customers, because this information helps the business correct past mistakes and make informed decisions about offering new products and services.

Consumers can often make their points more forcefully by working through advocacy groups such as the Consumer Federation of America, the National Consumers League, Mothers Against Drunk Driving, and the American Association of Retired Persons. These organizations, and hundreds of others that represent special interests, have the resources to lobby lawmakers and influence public opinion. They can also put pressure directly on businesses by staging demonstrations or boycotts.

▶ BUSINESS AND WORKERS

Over the past 20 years, dramatic changes have occurred in the attitudes and composition of the work force. These changes have forced businesses to modify their recruiting, training, and promotion practices.

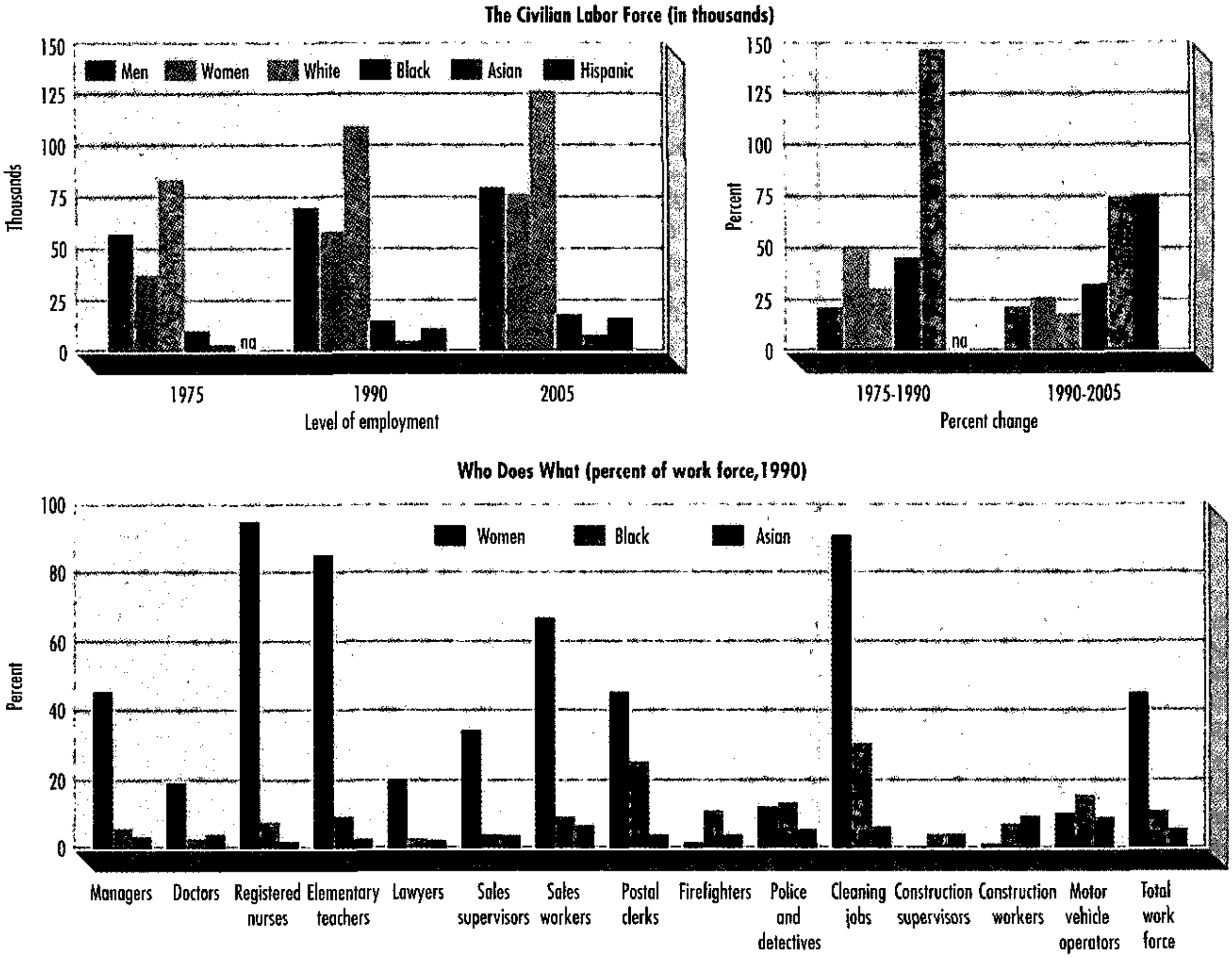
The Push for Equality in Employment

The United States has always espoused economic freedom and individual rights to pursue opportunity. Unfortunately, until the past few decades, many people in the United States were targets of economic **discrimination**, relegated to low-paying, menial jobs and prevented from taking advantage of many opportunities based solely on their ethnic background, race, gender, age, disability, religion, or other irrelevant characteristics.

The burden of discrimination has fallen on **minorities**, such outnumbered and easily distinguishable groups as African-Americans, Hispanics, Asian-

discrimination In a social and economic sense, denial of opportunities to individuals on the basis of some characteristic that has no bearing on the ability of these persons to perform

minorities In a social and economic sense, categories of people that society at large singles out for discriminatory, selective, or unfavorable treatment



Americans, people with disabilities, and people who are elderly. In a social or economic sense, women are a minority as well. Even though they outnumber men in our society, women have also traditionally suffered economic discrimination.

Job discrimination, in particular, has been a "vicious cycle." Because they could not hope for better jobs, many minority-group members have had little incentive to seek an education. And because they have not been adequately educated, many have not been able to qualify for those jobs that might have been available to them. Exhibit 4.4 shows how discrimination has affected the job opportunities of key minorities.

Discrimination runs counter to the American ideal of equal opportunity for all. So when women, African-Americans, Hispanics, and other minorities have pressed for fair treatment, society has responded.

EXHIBIT 4.4

How Discrimination Has Affected Employment of Minorities

Discrimination has resulted in continuing low levels of employment for minorities and has narrowed their choice of career.

Government Action

Several branches of the federal government are instrumental in shaping the country's position on civil rights. Congress, the executive branch, and the courts all play a vital role. In addition, state and local governments have their own programs and policies for helping minorities. As the composition of these groups changes, the government's policies on civil rights shift.

affirmative action Activities undertaken by businesses to recruit and promote minorities, based on an analysis of the work force and the available labor pool

Over the past 25 years, there has been a constant tension in the government between those who want to create special programs to help minorities move up the economic ladder and those who prefer to minimize the government's intervention. The proponents of **affirmative action** believe that equal opportunity can best be achieved if disadvantaged groups are temporarily given special benefits. They argue that minorities deserve and require preferential treatment to make up for years of discrimination.

The opponents of government intervention believe that individuals should be judged on their own merits, regardless of race, sex, religion, or age. They argue that creating special opportunities for women and minorities creates a double standard that infringes on the rights of other workers and forces companies to hire, promote, and retain people who are not necessarily the best choice from a business standpoint. These affirmative-action opponents believe that the best way to help the disadvantaged is to promote economic growth, since "a rising tide carries all ships."

In the 1960s, strong advocates of affirmative action were in office. During this period, Congress passed the Civil Rights Act of 1964, which forbids discrimination in employment. The act established the Equal Employment Opportunity Commission (EEOC), a regulatory agency whose aim is to help bring minority-group members into the mainstream of the economy by countering job discrimination. Also during this period, President Lyndon Johnson issued a presidential order requiring all private companies that do business with the government to develop affirmative-action programs for hiring and promoting women and minorities. The EEOC was given responsibility for monitoring these programs and for investigating complaints of job-related discrimination. The EEOC has the power to file legal charges against companies that discriminate and to force them to compensate individuals or groups who have been victimized by unfair practices.

During the 1980s and early 1990s, the balance of power in government shifted to a more conservative group. Working through the Department of Justice, the Reagan administration, with its "less is more" philosophy, backed off the pursuit of civil rights violations. Perhaps the most important shift occurred with the gradual replacement of members of the Supreme Court. In a 10-year period, four relatively liberal justices were replaced by four conservatives. With the resignation of Thurgood Marshall and the confirmation of Clarence Thomas in 1991, the trend away from liberal support for civil rights is likely to continue.

The impact of this change in the composition of the Supreme Court became apparent in 1989 when six cases in three weeks sharply narrowed workers' ability to win race-, sex-, and age-discrimination suits (Exhibit 4.5). In the wake of these rulings, Congress tried in both 1990 and 1991 to pass a new civil rights bill that would reverse some of the effects of those decisions. In 1991 President Bush accepted the Civil Rights Act of 1991, which makes it easier for workers to sue for discrimination and gives women new legal tools against bias in the workplace.

Although points of disagreement remain about how far affirmative action should go, there is broad consensus on the basic concepts. Here is a brief summary of what employers can and cannot do:

Voluntary affirmative action. Companies can adopt voluntary programs to hire and promote qualified women and minorities to correct an imbalance in their work force, even if there is no evidence of past discrimination.

Mandatory affirmative action. The federal courts can impose mandatory affirmative-action plans in cases where employers have clearly discriminated against women and minorities and have refused to take corrective action.

EXHIBIT 4.5 ▶ Supreme Court Rulings on Affirmative Action

YEAR	RULING
1978	**University of California Regents** v. **Bakke** Court strikes down (5–4) medical-school admissions plan that favored minorities, but upholds (5–4) race as one factor in admissions.
1979	**Steelworkers** v. **Weber** Court upholds (5–2) a voluntary affirmative-action plan for crafts training at Kaiser Aluminum & Chemical plants.
1980	**Fullilove** v. **Klutznick** Court upholds (6–3) Congress's decision to set aside a portion of public-works funds for minority businesses.
1984	**Memphis Firefighters** v. **Stotts** Court (6–3) limits judges' power to approve layoffs that disregard seniority and permit employees with less tenure to remain on the job.
1986	**Wygant** v. **Jackson Board of Education** Court rules (5–4) that the Constitution bars Jackson, Michigan, from laying off white teachers with more seniority than blacks who remain at work.
	Local 93 v. **City of Cleveland** Court approves (6–3) a plan of promotions for firefighters using a 1:1 ratio to increase the number of minorities in upper-level jobs.
	Local 28 v. **EEOC** Court rules (5–4) that a federal court properly set a goal of 29 percent minority membership in a Sheet Metal Workers local and made the union pay for training.
1987	**U.S.** v. **Paradise** The Court (5–4) upholds a 1:1 ratio for promoting black state troopers in Alabama, saying the Constitution doesn't prohibit this corrective action.
	Johnson v. **Transportation Agency** Court rules (6–3) that public employers, as well as private, may voluntarily implement affirmative action to correct sex discrimination.
1989	**Richmond** v. **Croson** Court votes (6–3) to strike down Richmond, Virginia, law requiring 30 percent of all city building contracts to go to minority companies.
	Wards Cove v. **Antonio** Court sets new standards (5–4) for suits challenging hiring or promotion practices that appear fair but that have a "disparate impact," resulting in proportionately more whites than minorities. Plaintiffs must specifically identify practices that have disparate impact and must prove that employer has no business need for the practice.
	Martin v. **Wilks** Court rules (5–4) that because some white firefighters in Birmingham, Alabama, had not been involved in two earlier suits charging discrimination, they had a right to sue over hiring and promotion policies.
	Patterson v. **McClean Credit Union** Court finds (5–4) that the right to sue for damages for racial job discrimination applies only to hiring, not to on-the-job harassment or other forms of bias after someone is hired.
	Lorance v. **AT&T Technologies** Court rules (6–3) that the statute of limitations for challenging a discriminatory seniority plan begins when the plan is adopted, not when the plan is applied to harm the plaintiff.
	Price Waterhouse v. **Hopkins** Court holds (6–3) that in discrimination cases in which the employer has made an employment decision for both legitimate and illegal reasons, the employers can avoid liability if they can justify decision on permissible, nondiscriminatory grounds.

quotas Fixed numbers of minority-group members to be hired

Quotas. In specific cases, where companies have clearly discriminated against minorities, a federal court can impose rigid numerical hiring and promotion **quotas** for minorities. However, voluntary quota plans remain legally questionable.

Layoffs. Companies cannot lay off white males with job seniority in order to save the jobs of minorities with less seniority.

One other type of affirmative action was recently approved by Congress. For some time, the Department of Defense has been striving to award 5 percent of its contracts to minority-owned firms, but qualified firms were in short supply. In 1990 the Pilot Mentor Protege Program (a section of the Defense Authorization Act of 1991) became law. This new program aims to increase the number of qualified subcontractors by reimbursing prime contractors that adopt a minority-owned firm and offer technical and managerial assistance. By increasing the subcontractor's capability, the prime contractor is helping create its own supplier base, a plan applauded by all.[29]

Business's Response

Since passage of the 1964 Civil Rights Act, most businesses have taken an active role in complying with government requirements to set up affirmative-action programs to recruit members of minority groups and train them for jobs. With the passage of the 1991 civil rights compromise, companies have been given the incentive to train their managers and set up employment policies to ensure against bias in the workplace.

Although business has many reasons for its commitment to affirmative action, the most important is that the policy has worked. By and large, companies have had positive experiences with the people who have been hired and promoted under these programs. Furthermore, cultural diversity is rapidly becoming a fact of business life. By the end of the 1990s, 85 percent of the new hires will be women, African-Americans, Hispanics, or Asian-Americans. White males will become a minority of the work force, and employers who discriminate against women and minorities will be at a serious competitive disadvantage in attracting talented people.[30]

Women in the Workplace

In the past 20 years women have made significant strides in the workplace, thanks to a combination of affirmative action and changing attitudes among women. The feminist movement of the 1960s encouraged women to aspire to the same sort of career success that had previously been the province of men. As their assumptions about work shifted, women began to invest more time in career training and to opt for higher-paying professions. In the 1950s, only 20 percent of college undergraduates were women; today, women earn more B.A. degrees than men and their most frequent major is business. Roughly a third of all professional degrees are earned by women, versus 5 percent in 1960. In addition, 30 percent of all working women are professionals or managers, the same proportion as men.[31]

As women have moved into these higher-paying occupations, the gap between their earnings and men's earnings has narrowed from 60 percent in 1980 to 68 percent today.[32] But despite their progress, women continue to earn significantly less than men, even when they compete in the same occupations, as

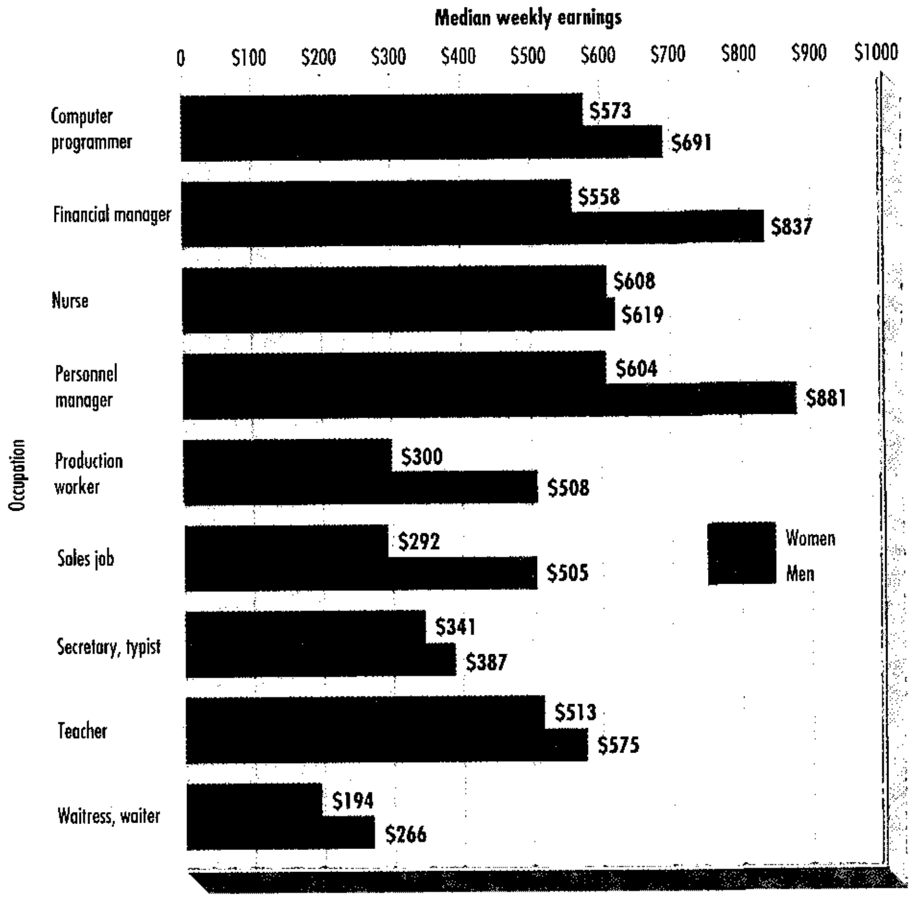


EXHIBIT 4.6

Women's Earnings Versus Men's Earnings

Despite more than 20 years of fighting for equal opportunity, women still earn less than men in almost every field, even those dominated by women.

Exhibit 4.6 illustrates. Women are more likely than men to work part time or on an intermittent basis, which tends to put them behind their male peers on the career ladder. Also, many of the top positions in industry are held by men in their 50s and 60s who began their careers in the years before the women's movement.

Many women perceive a **glass ceiling**, or wall of subtle discrimination, barring them from moving up into the highest ranks. Only 3 of every 100 top jobs in the largest U.S. companies are held by women, about the same number as a decade ago.[33] Women are often passed up for promotion because people assume they will be less interested in the job and more tied to their family than their male associates are.

glass ceiling The invisible barrier that keeps women out of the top positions in business

One way to counteract this prejudice, some argue, is to establish two separate career tracks for women: a fast track for those who consider work their top priority and a so-called mommy track for those who want to balance their career and family commitments more evenly. Although many women are troubled by the concept of the mommy track and feel it will be used to justify discrimination, 82 percent of a group of 1,000 professional women said in a recent poll that they would choose a career path with flexible full-time work hours and more family time but slower career advancement over one with inflexible hours and faster advancement.[34]

Meanwhile, blue-collar women are grappling with another type of career-versus-family issue—fetal protection. For a number of years, some major corporations have barred women of child-bearing age from jobs involving hazardous chemicals that might cause birth defects. Women have argued that these fetal protection policies effectively shut them out of 20 million relatively high-paying industrial jobs. The issue came to a head in 1991 when the Supreme Court ruled that fetal protection policies are an illegal form of sex discrimination. The court's ruling will give women, not companies, the final decision about whether they should take assignments that might be harmful to their unborn children.

sexual harassment Unwelcome sexual advance, request for sexual favors, or other verbal or physical conduct of a sexual nature within the workplace that affects a person's job prospects or job performance

Another sensitive issue concerning primarily women in the workplace is **sexual harassment.** As defined by the EEOC, sexual harassment takes two forms: the obvious request for sexual favors with an implicit reward or punishment related to work, and the more subtle creation of a sexist environment in which employees are made to feel uncomfortable by off-color jokes, lewd remarks, and posturing.

A recent survey reports that four out of ten women say they've experienced some form of sexual harassment on the job. However, only 5 percent of those four women ever reported the harassment. Moreover, five out of ten men say they've done or said something at work that could be considered sexual harassment by a female colleague.[35]

There's a good deal of subjectivity in deciding whether a particular action constitutes sexual harassment. The most recent court cases involving women use the "reasonable woman" standard. If a reasonable woman would find a situation objectionable, the court deems it sexual harassment. Another important factor is whether the employer has an effective internal grievance procedure that gives employees an opportunity to complain without suffering repercussions.

Honeywell, Corning, and Dupont are among the companies that have amplified their antiharassment programs with employee training, detailed handbooks, and workshops. AT&T says that 19 out of 20 complaints received are valid, and the company warns its employees that they can be fired for acts of sexual harassment. However, rather than offering separate training on the subject, AT&T offers voluntary classes on workplace diversity, believing the approach has more impact.[36]

People with Disabilities

In 1990 people with a wide range of physical and mental difficulties got a boost from the passage of the federal Americans with Disabilities Act (ADA), which guarantees equal opportunities for an estimated 50 million to 75 million people who have or have had a condition that might handicap them. As defined by the 1990 law, *disability* is a broad term that protects not only those with obvious physical handicaps but also those with less visible conditions such as cancer, heart disease, diabetes, epilepsy, AIDS, drug addiction, alcoholism, and emotional illness. For example, it is now illegal in most situations to require job applicants to pass a physical examination as a condition of employment. It is also illegal to terminate people who have a serious drinking or drug problem unless their chemical dependency prevents them from performing the essential functions of their jobs.

The law also says that all businesses serving the public must make their services and facilities accessible to people with disabilities. This means that restaurants, hotels, retail stores, beauty parlors, gas stations, libraries, airports, buses, taxis, banks, theaters, concert halls, sports stadiums, and so forth must make a reasonable effort to accommodate people who are disabled. A hotel, for example, must equip 5 percent of its rooms with flashing lights or other "visual alarms" for people with hearing impairments.[37]

Occupational Health and Safety

Every 18 seconds, someone in the United States is injured on the job; every 50 minutes, someone is killed in a work-related accident; every year, more than 70,000 people die from diseases directly related to their work.[38] Obviously, some jobs are more dangerous than others, as Exhibit 4.7 illustrates. Concern about workplace hazards mounted during the activist 1960s, resulting in passage of the Occupational Safety and Health Act of 1970, which set mandatory standards for safety and health and which established the Occupational Safety and Health Administration (OSHA) to enforce them.

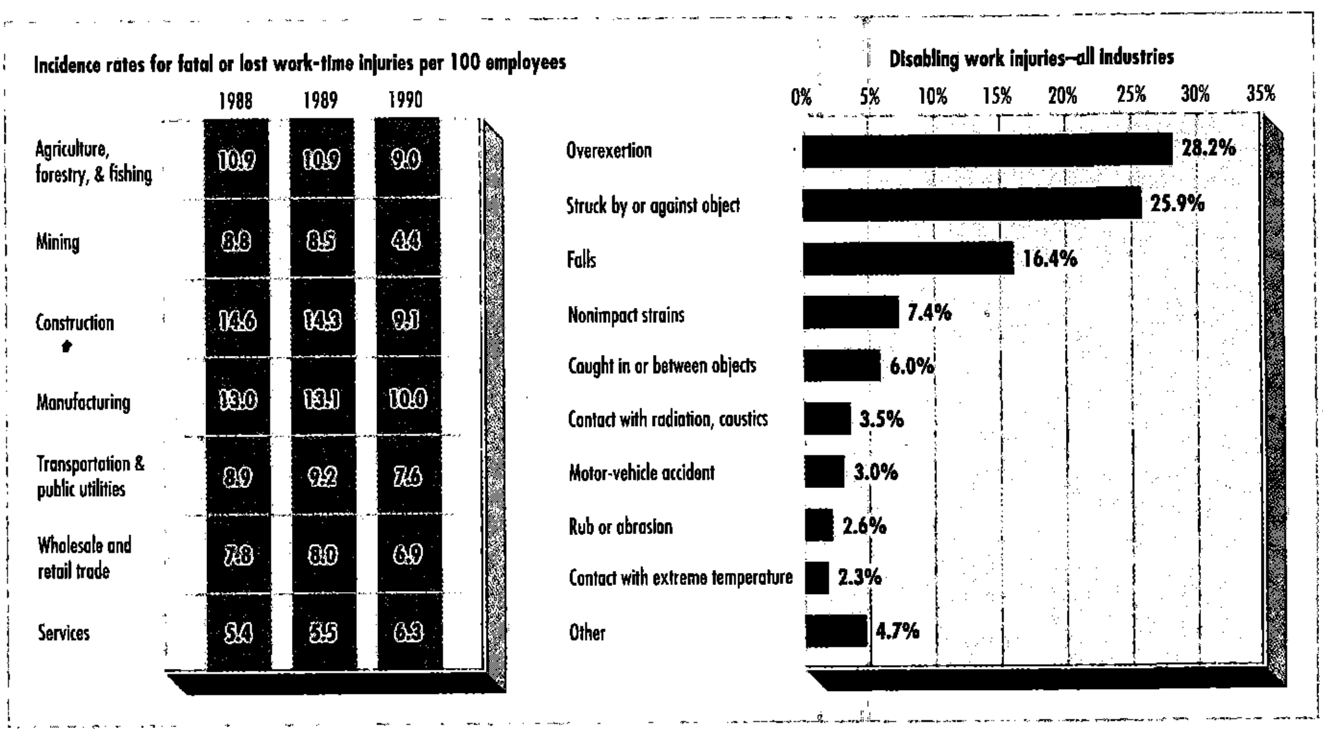
OSHA is charged not only with preventing accidents but also with eliminating "silent killers": work-related diseases (such as black lung among coal miners) and injury from the toxic effects of chemicals, asbestos, and other harmful substances. OSHA employees investigate complaints and review company records to identify firms with higher-than-average accident rates. The usual penalty for safety violations is a fine. If the violation was intentional, OSHA turns the case over to the Justice Department for criminal prosecution. However, in the 1980s, OSHA referred only 30 cases, and the Justice Department prosecuted only four of them. No corporate executive has ever served in prison for federal safety violations that resulted in a worker's death, although six executives have been sentenced under state convictions.[39]

Even without tough government supervision, many companies are stepping up efforts to improve the health and safety of their employees, motivated both

EXHIBIT 4.7

Accidents on the Job

Although one might expect manufacturing jobs to be the most dangerous, service and government workers are among the most likely to be injured at work. Truck drivers run the greatest risk of a work-related injury, whereas chemical workers, surprisingly enough, are relatively safe.



If you think that nice office job is safe, think again. Almost half the reported cases of workplace illness involve ailments caused by repetitive motion such as typing at a keyboard. Although the problem first showed up in factories among assembly-line workers, it is increasingly common among clerical workers. Early warning signs include tingling fingers and loss of feeling.

by genuine concern and by the mounting costs of workers' compensation claims. Alcoa, the big aluminum company, has improved its safety record by 25 percent in three years and estimates that it saves $10,000 to $12,000 for every accident it prevents.[40]

▶ BUSINESS AND INVESTORS

In addition to its other responsibilities, a business must also keep in mind its responsibility to those who have invested in the company. Although a growing number of investors are concerned about the ethics of the companies in which they invest, most are chiefly interested in the company's financial performance. Thus, the company's major responsibility to investors is to make money on their behalf. Any action that cheats the investors out of their rightful profits is unethical. But a business can also fail in its responsibilities to shareholders by being too concerned about profits.

Cheating the Investor

Of all the ways investors can be cheated, most fall into one of two categories: misrepresenting the potential of the investment or diverting the earnings or assets so that the investor's rightful return is reduced.

Misrepresenting the Investment

Ponzi scheme Form of fraud in which money received from later investors is used to pay off the earlier investors

Every year, tens of thousands of people are the victims of investment scams. Lured by promises of high returns, people sink more than a billion dollars per year in nonexistent oil wells, Lithuanian gold mines, and other fraudulent operations touted by complete strangers over the telephone.[41] One of the most popular come-ons in recent history involved Operation Desert Storm. Shortly after Iraq invaded Kuwait, regulators raided 32 telemarketing firms in Los Angeles, Dallas, and Salt Lake City, charging con artists with touting phony oil and gas deals. Some 3,500 investors put a total of $50 million into these investments, trusting the promotors' claims that the war would drive up oil prices. One retired postal worker, for example, invested $31,250 in gas wells that were supposed to yield $625 per month and did indeed receive a few monthly checks. Unfortunately, though, the operation was a **Ponzi scheme**, meaning that early investors were paid with money raised from later investors. The wells were either plugged or not owned by the company making the offer, and the scheme collapsed when the supply of new investors dried up.[42]

A Ponzi scheme is clearly illegal, but other ways of misrepresenting the potential of an investment fall within the law. With a little "creative accounting," a business that is in deep financial trouble can be made to look reasonably good to all but the most astute investors. Companies have a certain amount of latitude in their reports to shareholders, and some firms are more conscientious than others in representing their financial performance.

Diverting Earnings or Assets

Business executives may also take advantage of the investor by using the company's earnings or resources for personal gain. Managers have many opportunities to indirectly take money that rightfully belongs to the shareholders. Perhaps the most common approach is to cheat on the expense account. Padding invoices and then splitting the overcharge with the supplier is another common ploy. Another possibility is selling company secrets to competitors or using inside information to play the stock market.

Insider trading—the use of knowledge gained from one's position in a company to benefit from fluctuations in stock prices—has been in the news frequently in recent years. Although insider trading is illegal, it is difficult to police. Say you're an accountant for a major corporation. You know the company is about to report a large, unexpected loss. When the news breaks, the price of the stock will undoubtedly fall. You could protect yourself by selling the stock you own before the word gets out. Who'd know the difference? And who'd care? Consider the people who might buy your shares; chances are *they* would care. And consider the other shareholders, the investors who actually own the company even though they have no day-to-day involvement with it. Would it be fair for you to profit while they did not?

insider trading Employee's or manager's use of information gained in the course of his or her job and not generally available to the public in order to benefit from fluctuations in the stock market

Overdoing the Quest for Profits

Most executives would agree that insider trading is damaging to shareholders. But what about trying to maximize profits? How can that possibly be bad? Few companies knowingly break laws in an attempt to gain competitive advantage. But many companies have employed questionable practices in their zeal to maximize profits. Managers are often caught in a gray area, where the legality and ethicality of a particular action are debatable. For example, should a company bribe a foreign official? You might say no, but be aware that bribery is considered customary in many cultures. The Foreign Corrupt Practices Act explicitly makes it illegal to bribe higher-level foreign officials, but "grease" payments to lower-level officials such as customs agents are permitted. As a manager, where would you draw the line between higher- and lower-level officials?

And what about spying on competitors? When does legitimate market research become unethical or illegal? Is it okay to buy a competitor's product and take it apart to see how it works? Is it all right to hire someone who previously worked for a competitor and ask probing questions about the company's plans and strategies?

A number of companies have recently been penalized for overdoing their quest for profits. Johnson & Johnson, one of the 10 most admired corporations in the country, has been ordered to pay $113 million to 3M for analyzing a sample of a soon-to-be-launched 3M material used in making casts for broken bones. J&J received the sample from a disgruntled 3M employee who offered to explain the technology for $20,000. Although J&J did not pay for any information, the company was able to use the sample in developing a similar product. What J&J should have done, according to an industrial security consultant, was report the situation to 3M and call the FBI.[43]

J&J is by no means alone. General Electric, another highly regarded company, was recently ordered to pay a $10 million fine for padding a defense contract.[44] And Chrysler faces a $7.6 million fine for selling 30 previously wrecked vehicles as new cars.[45]

None of the executives involved in these cases profited personally; their chief concern was to improve the financial performance of the company. Some might argue that these executives were guilty of nothing worse than loyalty to their company, or that their competitors were doing the same thing, or that the rules they broke were trivial. You be the judge. Were these companies right or wrong?

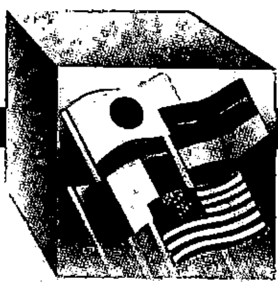
▶ THE EFFORT TO BECOME MORE ETHICAL

Most companies are concerned about issues like these, and many are trying to develop approaches for improving their ethics. At the same time, however, many individuals in both business and government are taking a hard look at the costs associated with programs designed to protect consumers, employees, and the environment.

How Companies Encourage Ethical Behavior

code of ethics Written statement setting forth the principles that should guide an organization's decisions

By and large, businesspeople are like the rest of us. They're waking up to their social and environmental responsibilities and trying to do the right thing. Three out of four large companies have adopted a written **code of ethics**, which defines the values and principles that should be used to guide decisions.[46] Many also run *training* programs to teach employees how to deal with ethical dilemmas. Some companies screen potential employees for honesty *before* they are hired. The simplest but least scientific way to do this is to ask questions *during* the interview process that reveal something about the applicant's values and moral principles. A more formal approach involves the use of written "honesty" tests designed to reveal a candidate's standards. For example, the test might ask, "If you



EXPLORING INTERNATIONAL BUSINESS

Gift Versus Bribe: When a Friendly Exchange Turns into Risky Business

Your company has sent you to an African country to conduct business. You think you've clinched the deal, but then your contact asks you for a "gift" of money to ensure that the deal goes through. Do you say, "Sorry, I don't give bribes," and stomp away in a huff? Or do you give him what he asks for and feel guilty for violating business ethics?

Deciding how to handle such situations requires knowing the customs of the country you're doing business in. Most non-Western countries, especially in Africa and Asia, have strong traditions built around exchanges of gifts. The savvy businessperson who can tap into these traditions will not only clinch today's deal but will also establish long-term business relationships—without compromising integrity.

American businesses that operate in non-Western countries need to be aware of three traditions underlying modern business dealings in those countries: the inner circle, the future-favors system, and the gift exchange.

People in developing nations tend to see themselves as belonging to an inner circle that consists of relatives, friends, and close colleagues. All those in the inner circle are devoted to mutual protection and prosperity. Everyone else is an outsider, a stranger whose motives are to be questioned. Obviously, people prefer to conduct business with insiders—people they know and trust.

In a system of future favors, a gift or service obligates the recipient to return the favor at some future time—with interest. And once the favor is returned, the original giver becomes obligated to repay this greater favor. And so the system of obligations becomes a lifelong relationship, one that can provide access to the inner circle and that can serve as the basis of business dealings.

A third cultural tradition, intertwined with the saw a co-worker stealing, would you turn the person in?" or "Do you agree or disagree that stealing from an employer is not the same as stealing from a friend?"[47]

VIDEO EXERCISE

Companies are also giving corporate responsibility an important place on the organizational chart. A number of leading corporations have appointed environmental or community affairs executives to oversee corporate-wide efforts to act in a socially responsible manner. For example, McDonald's created the post of vice president of environmental affairs in August 1990. Mike Roberts, the new VP, immediately set up a task force to work with the nonprofit Environmental Defense Fund. The resulting major waste-reduction program will cut the huge stream of waste from McDonald's 11,000 restaurants by 80 percent within a few years. The program goes far beyond the company's much publicized decision to switch from polystyrene packaging to coated paper boxes for sandwiches. At least 42 major changes in restaurant operations are involved—everything from composting food scraps to replacing plastic spoons with a biodegradable starch-based alternative. From now on, the entire company will view waste reduction as a top priority, along with quickness, cleanliness, and quality service. A cynic might say that the program is just a public relations gimmick, but there's more than hype involved. McDonald's plans to spend $100 million annually on waste-reduction efforts and expects its suppliers to incur additional costs as well.[48]

McDonald's is only one of many high-profile companies that are leaping on the "social responsibility" bandwagon. To bolster their image as corporate good guys, most of the leading consumer products companies are "going green"—inventing new products, repackaging old ones, and redoing their advertising

future-favors system, is the practice of gift giving. Giving or receiving a gift can be much more than a gesture of friendship—it can be the first in a long-term sequence of gift exchanges. As expert Jeffrey A. Fadiman noted, "The gifts are simply catalysts. Under ideal circumstances the process should be unending, with visits, gifts, gestures, and services flowing back and forth among participants throughout their lives."

By participating in the traditional exchange of gifts and favors and becoming part of an inner circle, American businesspeople can build trust, gain greater access to local markets and expertise, and minimize risk in a foreign environment.

The difficult part about participating in local gift-giving traditions is learning how to distinguish gifts from bribes. If your African contact asks you for money, is he engaging in extortion, or is he encouraging you to enter into the future-favors system? One clue is the size of the request—the smaller the amount, the less likely it is to be a bribe. Another clue is the person the money is to be paid to. If it is supposed to go to a third party—especially someone in power—it is more likely to be a bribe.

Many large American corporations have developed clever and useful strategies for handling requests for payoffs. Instead of making private payments to individuals, they offer donations to build hospitals and schools, they provide engineering or other expert services for public works, or they donate jobs—all with the goal of creating goodwill in the host nation. Furthermore, they gain a reputation for providing social services instead of paying bribes, and the foreign officials who arrange the donation increase their prestige.

Having appropriate knowledge and using appropriate strategies, Western businesspeople can pursue successful dealings in non-Western countries without compromising their ethics. On the local level, gift giving serves an important traditional function that can be seen as a courtesy and not as a bribe. On broader levels, companies can circumvent questionable payoffs by providing important social services that benefit everyone and that establish long-term trusting relationships.

Unocal, the Southern California oil company, found a creative, relatively inexpensive way to save Los Angeles's air from 10.7 million pounds of smog-forming gases. For $6 million, the company bought and retired 8,376 pre-1971 cars, which belch out 60 times the pollutants of new cars. To achieve the same pollution savings at its local refinery, which is already equipped with sophisticated controls, Unocal would have had to spend $160 million.

campaigns to emphasize their virtue. Companies are also doing more cause-related marketing, in which they contribute a portion of the profit from sales of a product to a worthy cause. Ben & Jerry's uses this technique to promote its Rain Forest Crunch brittle. Forty percent of the profits go into a fund to protect the Amazon rain forest.

Many businesses are also trying to encourage ethical behavior among employees by setting an example of community involvement. Corporations donate over $5.6 billion to charity each year, and many executives also donate their time to community affairs.[49] At the same time, many corporations have begun to take a stand on moral issues, such as helping foster the growth of minority-owned businesses or fighting apartheid in South Africa.

Practical Limitations on Social Responsibility

Although most companies attempt to make ethical decisions, they are also concerned about the costs of their actions. Undertaking many socially responsible activities takes money. Just how much money is unclear, because no single source of information exists on business's expenditures for socially desirable activities.

Looking just at pollution control, a recent analysis by the Environmental Protection Agency estimates that the United States devotes 2 percent of its GNP to protect and clean up the environment; that figure is expected to increase to almost 3 percent, or $46 billion, by the year 2000. Is that too much? Can the country afford it? The answer depends on your priorities, but as a percentage of GNP, the amount is comparable to what other industrialized nations are spending. To put the figure in perspective, we spend roughly the same amount on illegal drugs each year, twice as much on clothing, and six times as much on defense.[50]

Regardless of exactly how much we spend, we need to be concerned about getting our money's worth. For example, say that you are the manager of a chemical-processing plant. For $2.2 million, you can remove 94 percent of the hazardous by-products from your wastewater. To remove 97 percent would cost you another $3.8 million. Is the *additional* reduction of 3 percent worth the price?

Because resources are limited, companies do not have the luxury of paying "whatever it takes" to save lives or to protect the environment. If they spend $1 million to save a few lives by cleaning their wastewater more thoroughly, they may not have another $1 million to spend on other safety measures that would save even more lives.

SUMMARY OF LEARNING OBJECTIVES

1 Identify four groups to which business has a responsibility.

Companies have a responsibility to society, to consumers, to employees, and to investors.

2 List and explain four philosophical approaches to resolving ethical questions in business.

In resolving ethical questions, companies may employ absolute standards based on religious teachings or apply the principles of utilitarianism (the greatest good for the greatest number of people), individual rights (respect for human dignity), and justice (fair distribution of the benefits and burdens of society).

3 Name three kinds of pollution, and outline actions to control each.

Air, water, and land pollution are all significant problems. The government has attacked these problems by passing the National Environmental Policy Act of 1969 and by establishing the Environmental Protection Agency to regulate the disposal of hazardous wastes and to clean up polluted areas. In addition, many companies have taken steps to reduce the amount of pollution they produce and to dispose of hazardous wastes more safely.

4 Specify the four rights of consumers.

Consumers have the right to safety, the right to be informed, the right to choose, and the right to be heard.

5 State the responsibilities of the Equal Employment Opportunity Commission.

The EEOC is responsible for seeing that employers do not discriminate against members of minority groups. The EEOC investigates complaints of job-related discrimination and files legal charges against discriminating companies.

6 Identify four issues that are of particular concern to women in the workplace.

Women are concerned about the gap between male and female pay. They are also grappling with such issues as the "mommy track," fetal protection, and sexual harassment.

7 Delineate two general ways in which investors may be cheated of their rightful profits.

Investors are cheated (1) when companies or individuals misrepresent the value of an investment and (2) when company representatives divert earnings or assets for their personal use, thus reducing the amount available to return to investors.

8 List six actions that companies are taking to meet their ethical and social responsibilities.

Companies are adopting codes of ethics, teaching employees the importance of maintaining high moral standards, screening job candidates for honesty, and appointing executives to oversee environmental and community affairs. In addition, companies are reviewing their operations and products in an effort to minimize waste and protect the environment. They are also setting a good example by giving time, money, and moral support to worthy causes.

Meeting a Business Challenge at Ben & Jerry's Homemade

Ben Cohen and Jerry Greenfield acknowledged the company was no longer what it had been. For one thing, there were now over 300 employees, not just two. Also, company stock had been sold publicly, making the company responsible not only to the community and employees but to stockholders as well. Even internal communication had changed. Monthly staff meetings, for all employees, had always been a part of the Ben & Jerry culture. But in the old days, employees split into small groups, talked over problems, and came back with solutions. Now the meetings had become one-way communications, with managers talking at the employees.

Cohen and Greenfield wanted to make some changes to address these issues. First, they wanted management to be more responsive to employees, for they believed that communication had not kept pace with the other changes growth had brought to the company. Even though Ben & Jerry's ice cream promoted social causes, sales were based on the quality of the product. And they believed that the excellent product would not continue to exist without better communication. Second, they wanted to do more for the employees. They wanted to put more power in the hands of lower management and to make life more enjoyable for everyone at the company.

But before making any changes, Cohen decided to consult the employees using the old format of the monthly staff meetings. He convened all the employees and asked what they considered to be the most pressing problems facing Ben & Jerry's. As in the old days, the employees talked over the problems and came back with some answers. The most pressing problem expressed was the need for the company to have a clearly stated direction. Employees were feeling caught between the managers, who wanted the company to grow and become more businesslike, and the co-founders, who wanted the company to be a force for social change. The old way of doing things was no longer working in the Ben & Jerry's of today.

The managers developed a strategy for Ben & Jerry's—the most comprehensive plan the company had ever had—but it was too businesslike for the co-founders, attuned to profits but not satisfactorily addressing the social agenda. Cohen and Greenfield wanted more creativity, so they pressed management to further explore the bounds of social responsibility. In the end, the co-founders got their social agenda, but the company also had to tend to business. The revised plan yielded an improved Ben & Jerry's. The company now had a clearly stated direction: Produce a product of the highest quality, demonstrate social responsibility, and remain economically viable. High product quality remained a company standard. The company's position regarding its social goals remained unchanged, true to Cohen and Greenfield. And the employees, still an important part of the organization, were given more room for input and discussion on business decisions.

Your Mission: As assistant to Ben Cohen and Jerry Greenfield, you are responsible for helping them keep the company on track with its new direction. Consider the following scenarios, and decide how you will act.

1. A group of the company's employees recently approached you with a concern about one of the social causes the company supports through the Ben & Jerry Foundation. They were opposed to the cause and did not want the company to support it. Of the following, what would be your best response to their concern?

a. You do not believe all employees need to support all the social causes. It is the responsibility of the board to donate the money and then it is up to the Ben & Jerry Foundation to allocate the funds to social programs they choose. You convey this message to the employees.

b. You decide to take the issue back to the employees. You convene an all-employee staff meeting and ask the employees to evaluate the social causes the company supports. The employees decide which issues to support.

c. You realize from time to time this will happen. The employees have approached you in a very responsible manner and you feel obligated to act on their concerns. There are innumerable social causes to support. You decide to approach the board and ask them to withdraw support for this one.

d. You personally believe in this cause and do not want to change anything. You use your influence to keep the funds flowing. You feel justified in using your influence this way because if it were not for your social beliefs, you'd be making a higher salary somewhere else.

Ben Cohen and Jerry Greenfield believe in measuring their success in terms of more than money. Every year they donate 7.5 percent of Ben & Jerry's pretax profits to charity. They also believe in social responsibility on a smaller scale, providing a diaper-changing table in the men's room as well as in the lady's room.

2. A new ice cream promoting a healthy ozone layer has been proposed. Ingredients for the product are produced exclusively by environmentally sound practices, making the product more expensive to manufacture than competitor products. A preliminary review indicates the product would pay for itself but would generate no profit. What should you do?

a. The ice cream meets the company's social and product goals. You go ahead with the introduction since other products will make up for the lack of profit.

b. You believe you are being disloyal to the stockholders if you do not maximize profits with every decision. You withdraw support for the product.

c. You decide to compromise the product by changing some of the environmentally sound ingredients to reduce the cost. This may dilute the social message, but you need to keep the shareholders in mind.

d. You believe the market will pay a higher price for a product associated with this issue. You raise the price, introduce the product, and hope for the best.

3. A congressional bill has been proposed to limit the fat content of manufactured foods. This directly affects your ice cream products. What do you do?

a. You hire a professional lobbyist, who attempts to prevent the bill from becoming law. You believe people can decide for themselves what to eat and have the right to choose which foods they buy.

b. You share the government's concern for consumer health. You develop a long-term strategy for reducing the fat content of all of Ben & Jerry's ice creams.

c. You refute the findings relating fat content to adverse health. You initiate a campaign to educate the public on the benefits of dairy fat in the diet.

d. You support the effort to reduce fat but you also believe in consumer choice. You propose an alternative bill to require accurate labeling of food containers.

4. As the environment becomes more important to both the government and the consumer, what is Ben & Jerry's responsibility in the manufacturing of a product?

a. Ben & Jerry's must take full responsibility for reducing waste, no matter what the cost. To counteract

the pollution already in the environment, businesses must take the initiative in using safer resources and controlling every aspect of waste, regardless of the effect on profit.
b. Ben & Jerry's is only one company, and its impact on the environment is small when compared to all the other businesses. Since the company must maintain profits in order to remain in business, and because it owes as much to its investors as it does to the environment, whatever attempt Ben & Jerry's makes to reduce and control waste will have to be enough.
c. In addition to meeting all government standards, Ben & Jerry's must decide which actions will yield the most benefit for the least money.
d. Complying with government regulations is all that any company can do. With so many agencies dictating so many rules, it's difficult enough for Ben & Jerry's to keep up with requirements, regardless of other actions the company may want to take.[51]

KEY TERMS

affirmative action (106)
code of ethics (114)
discrimination (104)
ecology (95)
glass ceiling (109)
individual rights (92)
insider trading (113)
justice (94)
minorities (104)
pollution (94)
Ponzi scheme (112)
quotas (108)
sexual harassment (110)
stakeholders (90)
utilitarianism (92)

REVIEW QUESTIONS

1. How has business's sense of social responsibility evolved since the turn of the century?

2. How do individuals employ philosophical principles in making business decisions?

3. What are some of the things business has done to protect the environment from the dangers of pollution?

4. In what way do you think the consumer movement might actually benefit business?

5. In what ways is business legally accountable for helping to achieve equal opportunity for minorities?

6. What are the responsibilities of the Occupational Safety and Health Administration, and how does the agency carry out its mission?

7. What is "insider trading," and how does it harm an investor in a company?

8. In your opinion, is the United States spending too much, too little, or just about the right amount to prevent pollution and clean up the environment?

A CASE FOR CRITICAL THINKING

Benevolent Capitalism—An Endangered Philosophy?

Clessie Cummins believed in the solid principles of hard work, good products, and community involvement. When he founded Cummins Engine Company in 1919, he built his success on this foundation. Cummins engines are the pride and joy of truckers who drive Kenworth, Peterbilt, and Navistar rigs. The engines log a full 600,000 miles before they need any major repair work, according to one fleet owner. That's 100,000 miles more than the competition. And they average 6.2 miles to the gallon, compared to 4.3 for other brands.

But to people in the heartland community of Columbus, Indiana (population 32,000), Cummins has traditionally meant much more than a good product. For over 60 years, local high school graduates could look forward to a high-paying job on Cummins's factory floor, albeit with some stringent rules designed to maintain its reputation for quality. (The rejection rate at the end of the assembly line is a mere 1 percent, one-third the industry average.) And when was the last time you heard of a company lobbying the state government for higher corporate taxes so that it could contribute more to the community?

Cummins takes its social responsibilities seriously. The company has built a shelter for the homeless, financed drug counseling in local schools, and hired the best architects (at a cost of $9.9 million) to design 24 of Columbus's public buildings. Near its new factory in a slum area of Sao Paulo, Brazil, Cummins helped build a school, a clinic, and a gymnasium. The manufacturer sent engines and generators to hurricane victims in South Carolina in 1989, and it contributed more to charity than all but 95 of the Fortune 500 companies in 1988—both years when Cummins Engine Company made no profit.

But such steadfast benevolence may soon succumb to the relentless forces beating against the company. After decades of hefty profits, Cummins slammed into the economic hardships of the 1980s. In 1983 the company was forced to lay off employees for the first time, a painful step announced after executives met for prayer with 30 of the town's clergy. Subsequent plant modernization eliminated more jobs, putting a total of 4,000 Columbians out of work. As a result, the community is experiencing a dramatic increase in domestic and violent crime, and young people are moving away, disillusioned and frustrated.

Two hostile takeover attempts have further buffeted Cummins Engine, which made itself vulnerable by sacrificing short-term profits in order to slash prices and hold on to its market share against stiff foreign competition. Despite wagging fingers and shaking heads on Wall Street, Cummins managed to keep a 54 percent share of the U.S. market. And even though costs have been cut 22 percent, the company hasn't eliminated its research and development, as some would advise. It remains committed to long-term thinking and to Clessie Cummins's founding principles. In one annual report, chairman Henry B. Schacht described the company's goal as "being fair and honest and doing what is right even when it is not to our immediate benefit."

Thus far, Cummins's social investments in the surrounding community seem to be paying off. The wealthy Columbus banking family that originally financed Clessie Cummins's business put up $72 million to buy off a British conglomerate attempting a takeover. But other investors have made unwanted advances, and it remains to be seen whether socially committed Cummins will survive in an era of less caring, less committed corporations.[52]

1. How far should a company take its community involvement? Do you believe Cummins Engine Company was right to continue its philanthropy in years when it returned no profit to shareholders?

2. If you were Henry B. Schacht, what tactics and strategies would you institute to strengthen the company against outside forces?

3. Why would foreign investors be interested in a company like Cummins Engine, which seems rooted in an earlier era and which has stubbornly refused to move its operations to a location that would provide cheaper labor and lower taxes?

BUILDING YOUR COMMUNICATION SKILLS

As directed by your instructor, call or write a local business or franchise operation and request a copy of its code of ethics. As an alternative, visit the periodical section of your library and locate such a code in a business magazine or professional journal article dealing with business ethics. With a group of no more than three or four other students, evaluate the code. Consider its policies toward workers and consumers. Who is protected by this code? How does the company balance its obligations to workers and consumers with its goals of producing products and generating income?

KEEPING CURRENT USING *THE WALL STREET JOURNAL*

From recent issues, clip or copy a *Wall Street Journal* article related to one or more of the following ethical/social-responsibility challenges faced by businesses:

- ▶ Environmental issues, such as air and water pollution, acid rain, and hazardous-waste disposal
- ▶ Employee or consumer safety measures
- ▶ Consumer information/education
- ▶ Employment discrimination/affirmative action
- ▶ Investment ethics
- ▶ Industrial spying and theft of trade secrets
- ▶ Fraud, bribery, and overcharging
- ▶ Company codes of ethics

1. What was the nature of the ethical challenge or social-responsibility issue presented in the article?

2. What lasting effects will be felt by (a) the company and (b) the agency or social group affected?

3. Was there any wrongdoing by a company or agency official? Was the action illegal, unethical, or questionable? What course of action would you recommend the company or agency take to correct or improve matters now?

Times, 6 June 1991, sec. c, 1; Jayne Levin, "The Clout of Calpers," *Investment Dealers' Digest*, 27 May 1991, 16–17; "CalPERS Outlines Investment Philosophy," *Employee Benefit Plan Review*, February 1991, 40–42; Stuart Silverstein, "CalPERS Backs Activist for Seat on Sears Board," *Los Angeles Times*, 18 April 1991, D2; John Greenwald and David E. Thigpen, "Whose Company Is This?" *Time*, 6 May 1991, 48; Teresa Carson and Jonathan B. Levine, "California's New Crusader for Shareholder Rights," *Business Week*, 30 January 1989, 72-73; Randall Smith and Laura Landro, "California Pension Plan Hires Law Firm to Quiz Time Warner on Rights Plan," *The Wall Street Journal*, 21 June 1991, A4; Marcia Parker, "Looking Over the Shoulder: Sears, Avon the Targets of Fund's Governance Efforts," *Pensions & Investments*, 26 November 1990, 3, 38.

CHAPTER 3

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CHAPTER 4

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CHAPTER 5

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