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# Busi- ness

# Eth- ics



## Professions under the Microscope

**Figure 9.1** What are the ethical challenges in entrepreneurship? In social media and advertising? In insurance and health care? This chapter examines these industries through an ethical lens. (credit: modification of “Health Care Medicine Healthy” by “ar130405”/Pixabay, CC0)

### Chapter Outline

- 9.1 Entrepreneurship and Start-Up Culture
- 9.2 The Influence of Advertising
- 9.3 The Insurance Industry
- 9.4 Ethical Issues in the Provision of Health Care



### Introduction

As consumers, employees, and community members, we see everywhere the extent to which business can contribute to either social well-being or harm. Some career paths invite special scrutiny because of their influential role in society and the extent to which they serve as magnets for business students. Friends and critics of these professions have studied the unique ethical issues they raise and individuals who pursue careers in these fields should give careful consideration to these findings to decide if the benefits outweigh the potential downsides.

Entrepreneurship, for instance, offers the opportunity to construct your own business in the hope of profit, but at some personal and financial cost. Are the potential gains being overplayed when, in fact, most entrepreneurial businesses fail? Advertising is the driver of sales, but are its claims honest and its delivery platforms, including social media, acting in good faith? Do they exert undue or biased influence on the gullible and the young? Insurance is necessary, but what is the proper and ethical role of property insurers, for example, in the face of increasingly dangerous natural disasters? Health care in the United States is extraordinarily expensive, especially compared with that in other industrialized nations, and access is too often limited to those with means. Should quality health care be a right for all rather than a privilege for the few?

## 9.1 Entrepreneurship and Start-Up Culture

### Learning Objectives

By the end of this section, you will be able to:

- Identify ethical challenges relating to entrepreneurial start-ups
- Describe positive and negative effects of growth in a start-up
- Discuss the role of the founder in instilling an ethical culture

An **entrepreneur** is a business leader willing to risk starting a new company and offering a product or service he or she hopes will be sustainable and permit the firm to prosper. The entrepreneur may have to find the money required for this venture and typically draws on business experience gained by working for others first. Entrepreneurship often requires hard work, but the potential for economic payoff and career satisfaction appeals to many.

### The Risks of Entrepreneurship

Although the risk of failure associated with starting a business is real and even high, we hear much in the media about success stories and little about those entrepreneurs who crash and burn. Perhaps the allure of entrepreneurship inevitably outshines any mention of the downside. Still, start-ups impose a higher than normal degree of risk, and we turn to the evidence for this now.

What is the specific nature of entrepreneurial risk? Different studies yield different results, but business consultant Patrick Henry reported that “75 percent of venture-backed startups fail.” Henry added that “this statistic is based on a Harvard Business School study by Shikhar Ghosh. In a study by Statistical Brain, ‘Startup Business Failure Rate by Industry,’ the failure rate of all U.S. companies after five years was over 50 percent, and over 70 percent after ten years.”<sup>1</sup>

This figure might be enough to chill the enthusiasm of any would-be entrepreneur who believes an exciting or novel concept is enough to support a successful company with a minimal amount of time and effort and a great deal of other people’s money. Still, the ranks of start-ups expand prodigiously each month in the United States.

Even start-ups that beat the odds financially need to be watchful for a different sort of pitfall, an ethical failure that can be nourished by the very strengths that allow a company to get off the ground. That pitfall is the hubris or excessive pride that may characterize some entrepreneurs, particularly after they have had some initial success. Uber, an application-based, ride-hailing service, was founded in San Francisco by Travis Kalanick and Garrett Camp in 2009. If ever an idea matched the success potential of smartphones, it was this one. Offering a cheaper and more convenient service than hailing a cab on city streets, Uber was valued at \$70 billion in 2017 and operated, with varying degrees of success, in seventy countries at that point. However, the corporate culture, especially at headquarters, left many observers aghast in early 2017 after an Uber engineer, Susan Fowler, blogged about her experiences there. Other employees substantiated much of her account, revealing an atmosphere rife with misogyny, homophobia, and sexual harassment.

This culture was permitted—even fostered—by Kalanick, who reigned unchecked for several years over what the *New York Times* labeled an “aggressive, unrestrained workplace culture.”<sup>2</sup> Muted grumblings from quarters within the company never received much attention outside the firm, allowing Kalanick to become a high-flying role model for would-be entrepreneurs who wished to emulate his success. A reckoning finally arrived when Uber’s board of directors asked him to resign his position as chief executive officer in June 2017.

Yet the workplace culture that prevailed during his years at the company was not unique to Uber. Many firms have experienced it. Holding destructive egos in check is an ethical challenge at many successful businesses, particularly at hard-riding start-ups. Founders and their start-up teams need to be aware of how deeply their attitudes toward others; their visible treatment of employees, customers, and clients; and their display of fairness will come to shape the company they are building. It is not enough for the founders to hypothesize, “we’ll get around to establishing the right protocols after we’re solvent.” Nor is it adequate to insist that standards of courteous business practice will naturally emerge on their own. An initial culture either of ethics or its absence will set a tone from the first day of business. If the founders believe these niceties are not required of them owing to their genius or confidence, such arrogance will displace ethics as a best practice. To believe otherwise is self-deception.

## Why Successful Start-Ups Change as They Grow

A legendary example of a start-up that still inspires many today is the Hewlett-Packard Corporation (HP). Its origins lie in the efforts of Bill Hewlett and David Packard, two Stanford University classmates in the 1930s. Much like members of a garage band, they started their company in a real garage, and the firm has outgrown its humble beginnings many times over ([Figure 9.2](#)).



**Figure 9.2** Hewlett-Packard has restored the original garage in Palo Alto, California, in which its two cofounders, Bill Hewlett and David Packard, former Stanford University classmates, began work in 1938 on the electrical switches and sound oscillators that became their new company’s first products. (credit: “HP Garage in Silicon Valley” by “MGA73bot2”/Wikimedia Commons, CC BY 2.0)

Start-ups are exciting. Many of their founders, like the late Steve Jobs of Apple, attain near-rock star status, and the companies *can* generate enormous profit. They allow many to do what they have always wanted to do and be their own bosses. Yet we often overlook the fact that even some of the most successful entrepreneurs experience many failures before they succeed, and long hours of hard work are typically required even for these failures. Smart entrepreneurs learn from their failures, but each lesson can be painful, frustrating, and time consuming.

A unique personality is required to weather the stresses and strains of a start-up, and it is a personality that tolerates much personal deprivation as it pursues the perceived highest goal of all, success for the firm, no matter what personal or collective costs might be entailed. The culture of entrepreneurialism allows for many

business leaders and their staffs to be deprived of a portion of their humanity along the way to success. Thus, a preeminent ethical consideration is whether the result justifies this cost. At the very least, determined entrepreneurs must be advised of these possible sacrifices. They constitute the collateral damage of entrepreneurial dreams that any ambitious start-up founder should contemplate. Will one emerge at the end of the process as the sort of person one most wishes to be?

Even if a start-up becomes what its founders wish it to be—astronomically successful—inevitably it will change as it grows, acquires new locations, and hires more employees. These changes may eventually produce an organization with added layers—essentially, a hardened bureaucracy that slows down and complicates the management process. The company may no longer make essential decisions with the speed and nimbleness that once were possible. In short, success for a start-up is often accompanied by the risk of becoming, over time, exactly the traditional business structure its founders once rejected. So the founders of an entrepreneurial shop, and their successors, must guard against change that radically alters the original spirit of innovation and the free and rapid flow of information, even as the company grows. No business leader seeks bureaucracy, but it typically accompanies growth within any organization.

Particular problems that arise out of bureaucratization are additional layers of management, more codified procedures, and internal obstructions that surface as a business attempts to capitalize on its initial success. As more employees are added to the mix, the original team's sense of common purpose can become diluted.

Max Weber (1864–1920), the German academic, economist, and sociologist, appreciated the consequences of bureaucracy years ago. In *Wirtschaft und Gesellschaft* [*Economy and Society*], published posthumously in 1925, he pointed out, “in the private economy, [bureaucracy emerges] only in the most advanced institutions of capitalism.”<sup>3</sup> Weber cemented the link between bureaucracy and capitalism further: “The development of the *money economy* [emphasis is Weber's] . . . is a presupposition of bureaucracy. Today it not only prevails but is predominant.”<sup>4</sup>

Because start-ups constitute an “advanced” feature of capitalism, and because bureaucracy presupposes a “money economy,” Weber prophesied that agile start-ups would be ripe for bureaucratization as they grow and age. Finally, he included this acknowledgement of the permanence of bureaucracy: “Once it is firmly established, bureaucracy is among those social structures which are the hardest to destroy.”<sup>5</sup>

More recently, Michael A. Lutzker confirmed Weber's testimony on the inevitability of bureaucracy: “The administrative function has of course been a pervasive element of all societies, ancient, medieval, and modern, but Weber was among the first to recognize the distinctive character of bureaucracy in the modern era.”<sup>6</sup>

Simply put, the very same success that permits a start-up to flourish often produces bureaucratic structures that chip away at the free-flowing camaraderie that allowed a handful of founders to act instantly and with one mind. As the staff expands, employees' ranks become more defined, titles and hierarchies appear, and individual achievements become harder to spot. This is what changes within a successful start-up, and it moves the company away from the more congenial atmosphere that characterized it at its outset. An original small partnership often becomes a corporate behemoth, and it takes on many of the attributes of those cubicle workplaces that frequently inspired its founders to strike out on their own in the first place.

All the better, then, if ethical practices that permit coworkers to bond as colleagues with a sense of commitment to each other and to their customers or clients emerge through a company's trial-and-error experience at the outset. Only if the founders and initial staff emphasize treating all stakeholders with honesty, courtesy, and respect will the new firm stand a chance of indelibly cementing ethics into its operating matrix.

## Entrepreneurial Culture

A fairly common characteristic of successful start-ups is charismatic, driven founders with take-no-prisoner competitive mentalities, as was illustrated earlier in this chapter in the example of Kalanick and the leadership values at Uber. After all, it takes a thick skin and powerful ego to get through the inevitable disappointments that confront a start-up leader. Often, however, even when these self-assured personalities evade the most egregious behavior of a Kalanick, they still remain very difficult for others to abide. Many companies discover that a different leadership ethos is necessary as they grow. Could entrepreneurs still succeed if they also embraced a humanistic leadership style at the outset, or would this invariably undermine the already low initial odds of success? It is a difficult problem with which many firms wrestle. Dedicated employees may be put off by demanding leaders who are harsh, giving little back to loyal workers even after achieving success. New employees may decide the working climate is less congenial than they anticipated and simply leave. This turnstile effect of workers voting on management with their feet constitutes an ethical judgment of repugnant leadership at the top.

### LINK TO LEARNING

Although no single set of traits identifies the ideal start-up leader, a demanding, driven nature is a fairly common characteristic. Consider these brief profiles of entrepreneurs: first, a [profile on Walt Disney](https://openstax.org/l/53WaltDisney) (<https://openstax.org/l/53WaltDisney>) and then a [profile on Steve Jobs](https://openstax.org/l/53SteveJobs) (<https://openstax.org/l/53SteveJobs>) as well as this [video showing a contrasting view from Kerrie Laird](https://openstax.org/l/53KerrieLaird) (<https://openstax.org/l/53KerrieLaird>) at Vodafone.

After watching the videos, consider this thought experiment: Suppose the cult of the charismatic—but dogmatic—entrepreneurial leader such as Walt Disney or Steve Jobs were replaced with one steeped in a commitment to employee empowerment that Kerrie Laird claims for Vodafone? Could this change the culture at start-ups? If it could, do you believe that change would be for the better or worse?

These observations identify what may be unique to **entrepreneurial culture**. This is a combination of personality and management style often identified with those business leaders who strike out on their own, bring a start-up to life, and shape its initial business practices and culture on the job. If the enterprise is successful, the principles and philosophy of the founder become enshrined in the lore of the company, so that long after his or her departure, succeeding leaders find themselves beholden to the management philosophy exemplified from the early days of the firm.<sup>7</sup> As *you* seek the right leadership style to implement on the job, begin by asking precisely what kind of leader you would prefer to work for if you were not the boss. The answer you provide may very well be the best model to follow as you develop your own leadership personality, whether it is at a start-up or a more established company.

The first employees of a start-up realize what is at stake as the company tiptoes into new entrepreneurial waters. The founder may be the boss, but those associated with him or her sense a collaborative spirit that directly joins them to the founder as well as each other. There can be a genuine fraternity among those who have been with the firm since day 1 or shortly thereafter. Founding members of an entrepreneurial business are also often willing to undergo the strains and rigors attached to a start-up in return for an ownership stake in the company that allows them to profit handsomely from its later growth and success.

Newer staff, however, may not share this mindset. They may simply be seeking a secure position with a



growing business rather than a chance to get in on the ground floor of a risky start-up. They will not necessarily have the tolerance for the demanding hours, chaos, and abrasive personalities that can characterize the early days of an enterprise. Can entrepreneurial founders shape a company's culture so it can accommodate talented employees who are looking for a corporate culture that supports some work-life balance?

Consider also the ethical practices of an entrepreneur and the ethical expectations of employees. Suppose that one of the distinguishing features woven into the fabric of the start-up is the respect extended to customers or clients. An entrepreneur typically promises always to hold customers in the highest regard, never lie to them, and serve them well. Furthermore, suppose this entrepreneur successfully instills this same ethos among all employees from the outset. Respect for customers is intended to become a distinguishing feature of the business; even if it causes monetary loss to the company, this entrepreneur will not cheat a client or misrepresent the company's services. Finally, presume that this ethos is embedded into the culture of the company while it is still in start-up mode.

Now, and literally against the odds, suppose the company becomes successful. This may signal the hardest time of all for the entrepreneur. Growth often accompanies success, and growth means, among other things, more employees. Not all these new hires will be as committed to the same degree of responsibility for customers. They will not necessarily set out to cheat clients, but they might lack the founder's enthusiasm for the most honorable treatment of customers. How can an entrepreneur ensure that the initial commitment carries over to the second generation of leadership? He or she cannot simply order it to happen—human nature usually does not respond so easily. So entrepreneurs must do their best to ensure that their version of customer service, one that prioritizes respect for clients, is passed along to new employees. It may be ingrained in the longest-serving employees, but it must be nurtured to the point where it has the same significance for the newest hires. This is where leadership mettle is tested to the severest degree.

## CASES FROM THE REAL WORLD

### Growing Up with a Start-Up

In the summer of 1970, a college senior named Paul Orfalea opened a store near the University of California, Santa Barbara, campus. He called it "Kinko's" after his own nickname and, with his partners, he sold college school supplies and around-the-clock copying services for students. After twenty-five years, Kinko's had grown to 1,200 stores and 23,000 employees, and Orfalea privately and lucratively sold it to FedEx.

Over the many years that Orfalea ran his start-up, his business became amazingly profitable but also imposed enormous stress on him and his founding partners and coworkers. As he put it, "I don't hide the fact that I have a problem with anger."<sup>8</sup> Since selling the company, Orfalea has spent many years mending relationships with those who worked most closely with him while he was building it.

What contributed to the tensions Orfalea felt while managing this burgeoning enterprise? Long hours, of course, but also the need he felt to sustain his initial success, to make each year more profitable than the last. Entrepreneurs often believe they are only as successful as their last quarter's profit and are driven to exceed it. Orfalea also felt that he alone was equipped to call others to account and veto what he felt were bad business ideas. Anger became a chief enemy he battled.

"In my mid- to late-forties," he said, "I struggled increasingly to manage my own emotional nature. Sometimes I felt I'd created a monster. The monster wasn't Kinko's, it was me."<sup>9</sup> Orfalea acknowledged the anger and resentment that he often felt toward other longtime staff at the company, which overpowered the respect that he knew he owed them. Consequently, he directed comments and actions at his colleagues that he has spent many subsequent years attempting to redress. All in all, he has labored diligently to repair friendships that he admits were frayed by his behavior alone.

After reflection, Orfalea now offers these recommendations to prospective entrepreneurs: Do not give way to your anger in the midst of the frustrating turns business inevitably takes. Do not take that anger home with you, either. Finally, try to be the person you most genuinely are, both at work and at home. It took Orfalea time to learn these lessons, but they are worthwhile for any would-be entrepreneur to ponder.<sup>10</sup>

### Critical Thinking

- What price would you be willing to pay to pursue an entrepreneurial career? What price would you demand from your partners in the business? How long could you let work monopolize your life?
- In your opinion, was Orfalea right to manage Kinko's the way he did as it grew? Were the worries, anxieties, and bad moods he experienced inevitable? How would you avoid these?

## 9.2 The Influence of Advertising

### Learning Objectives

By the end of this section, you will be able to:

- Discuss how social media has altered the advertising landscape
- Explain the influence of advertising on consumers
- Analyze the potential for subliminal advertising

The **advertising** industry revolves around creating commercial messages urging the purchase of new or improved products or services in a variety of media: print, online, digital, television, radio, and outdoor. Because as consumers we need and want to be informed, this feature of advertising is to the good. Yet some advertising is intended to lead to the purchase of goods and services we do not need. Some ads may make claims containing only the thinnest slice of truth or exaggerate and distort what the goods and services can actually deliver. All these tactics raise serious ethical concerns that we will consider here.

### The Rise of Social Media

Relevant to any discussion of the influence and ethics of advertising is the emergence and dominance of social media, which now serve as the format within which many people most often encounter ads. Kelly Jensen, a digital-marketing consultant, observed that we inhabit a "Digital Era" in which "the internet is arguably the single most influential factor of our culture—transforming the way we view communication, relationships, and even ourselves. Social media platforms have evolved to symbolize the status of both individuals and businesses alike. . . . Today, using social media to create brand awareness, drive revenue, engage current customers, and attract new ones isn't optional anymore. Now it is an absolute 'must.'"<sup>11</sup>

These are bold claims—as are the claims of some advertising—but Jensen argues convincingly that social



media platforms reach many consumers, especially younger ones, who simply cannot be captured by conventional advertising schemes. For those who derive most of the significant information that shapes their lives solely through electronic sources, nothing other than social media-based appeals stands much chance of influencing their purchasing decisions.

This upending of conventional modes of advertising has begun to change the content of ads dramatically. It certainly presents a new stage on which people as young as their teens increasingly rely for help in choosing what to buy. Many marketers have come to appreciate that if they are not spreading the word about their products and services via an electronic source, many millennials will ignore it.<sup>12</sup>

Undeniably, a digital environment for advertising, selling, and delivering products and services functions as a two-edged sword for business. It provides lightning-quick access to potential customers, but it also opens pathways for sensitive corporate and consumer data to be hacked on an alarming scale. It offers astute companies nearly unlimited capacity to brand themselves positively in the minds of purchasers, but it simultaneously offers a platform for disgruntled stakeholders to assail companies for both legitimate and self-serving reasons.

Paul A. Argenti, who has taught business communication for many years at the Tuck School of Business at Dartmouth University, has studied this dilemma. As he put it, “mobile apps have created a new playground for cyber-thieves.”<sup>13</sup> And consumer advocates and purchasers alike “now use technology to rally together and fuel or escalate a crisis—posing additional challenges for the corporation” in the crosshairs of criticism. Finally, “the proliferation of online blogs and social networking sites has greatly increased the visibility and reach of all current events, not excluding large corporate”<sup>14</sup> bungling.

Regardless of the delivery platform, however, any threat that the advertising of unnecessary or harmful products may pose to our autonomy as consumers is complicated by the fact that sometimes we willingly choose to buy goods or services we may not necessarily require. Sometimes we even buy things that have been proven to be harmful to us, such as cigarettes and sugary drinks. Yet we may *desire* these products even if we do not *need* them. If we have the disposable income to make these discretionary purchases, why should we not do so, and why should advertisers not advise us of their availability?

## Does Advertising Drive Us to Unnecessary Purchases?

By definition, advertising aims to persuade consumers to buy goods and services, many of which are nonessential. Although consumers have long been encouraged to heed the warning *caveat emptor* (let the buyer beware), it is a valid question whether advertisers have any ethical obligation to rein in the oft-exaggerated claims of their marketing pitches. Most consumers emphatically would agree that they do.

The award-winning Harvard University economist John Kenneth Galbraith directly addressed this issue in *The Affluent Society*, first published in 1958. In what he depicted as the “the dependence effect,” Galbraith bemoaned the power of corporations to harness wide-ranging advertising strategies, marketing efforts, and sales pitches to influence consumer purchasing decisions.<sup>15</sup> He asked whether it is possible for a sophisticated advertising campaign to create a demand for a product whose benefits are frivolous at best. If so, is there anything inherently wrong with that? Or are informed consumers themselves responsible for resisting tempting—though misleading—advertising claims and exercising their own best judgment about whether to buy a product that might be successful, not because it deserves to be but simply because of the marketing hype behind it? These questions remain fundamental to the manager’s task of creating ethical advertising campaigns in which truthful content is prioritized over inducing wasteful consumption.

Psychological appeals form the basis of the most successful ads. Going beyond the standard ad pitch about

the product's advantages, **psychological appeals** try to reach our self-esteem and persuade us that we will feel better about ourselves if we use certain products. If advertising frames the purchase of a popular toy as the act of a loving parent rather than an extravagance, for instance, consumers may buy it not because their child needs it but because it makes them feel good about what generous parents they are. This is how psychological appeals become successful, and when they do work, this often constitutes a victory for the power of psychological persuasion at the expense of ethical truthfulness.

Purchases are also affected by our notion of what constitutes a necessity versus a luxury, and that perception often differs across generations. Older consumers today can probably remember when a cell phone was considered a luxury, for instance, rather than a necessity for every schoolchild. On the other hand, many younger consumers consider the purchase of a landline unnecessary, whereas some older people still use a conventional phone as their main or even preferred means of communication. The cars and suburban homes that were once considered essential purchases for every young family are slowly becoming luxuries, replaced, for many millennials, by travel. Generational differences like these are carefully studied by advertisers who are anxious to make use of psychological appeals in their campaigns.

A consumer craze based on little more than novelty—or, at least, not on necessity or luxury in the conventional sense—is the Pet Rock, a recurring phenomenon that began in 1977. Pet Rocks have been purchased by the millions over the years, despite being nothing more than rocks. During the 2017 holiday shopping season, they retailed at \$19.95.<sup>16</sup> Is this a harmless fad, or a rip-off of gullible consumers who are persuaded it can satisfy a real need? In the annals of marketing, the Pet Rock craze denotes one of the most successful campaigns—still unfolding today, though in subdued fashion—in support of so dubious a product.

As long as marketers refrain from breaking the law or engaging in outright lies, are they still acting ethically in undertaking influential advertising campaigns that may drive gullible consumers to purchase products with minimal usefulness? Is this simply the free market in operation? In other words, are manufacturers just supplying a product, promoting it, and then seeing whether customers respond positively to it? Or are savvy marketing campaigns exerting too much influence on consumers ill prepared to resist them? Many people have long asked exactly these questions, and we still have arrived at no clear consensus as to how to answer them. Yet it remains an obligation of each new generation of marketers to reflect on these points and, at the very least, establish their convictions about them.

A second ethical question is how we should expect reasonable people to respond to an avalanche of marketing schemes deliberately intended to separate them from their hard-earned cash. Are consumers obligated to sift through all the messages and ultimately make purchasing decisions in their own best interest? For example, does a perceived “deal” on an unhealthy food option justify the purchase ([Figure 9.3](#))? These questions have no consensus answers, but they underlie any discussion of the point at which sophisticated advertising runs headlong into people's obligation to take responsibility for the wisdom of their purchases.



**Figure 9.3** When an unwise purchase is made appealing, where does the consumer’s responsibility for decision-making lie? Furthermore, if the purchase is spurred by children who are responding to advertising specifically directed at them, is consumer responsibility diminished? (credit: “Big Burgers - Asia (5490379696)” by Kinoko kokonotsu/Wikimedia Commons, CC BY 2.0)

No one would argue that children are particularly susceptible to the ads commercial television rains over them regularly. Generally, young children have not developed sufficient judgment to know what advertised products are good for them and which ones have little or no benefit or perhaps can even harm. Research has even shown that very young children have difficulty separating what is real on television from what is not. This is especially so as it pertains to advertising for junk food. Savvy marketers take advantage of the fact that young children (those younger than age seven or eight years) view advertising in the same manner they do information from trustworthy adults—that is, as very credible—and so marketers hone pitches for junk food directly to these children.<sup>17</sup>

What restrictions could we reasonably impose on those who gear their ads toward children? We could argue that they should take special care that ads targeting children make absolutely no exaggerated claims, because children are less capable of seeing through the usual puffery that most of us ignore. Children are more literal, and once they gain the ability to understand messages directed toward them, especially when voiced by adult authority figures, they typically accept these as truthful statements.

When adults make poor consumer choices, who is responsible? Is it ourselves? Is it our society and culture, which permit the barrage of marketing to influence us in ways we often come to regret? Is it the persuasive power of marketers, which we should rein in through law? Do adults have the right to some assistance from marketers as they attempt to carry out their responsibility to protect children from manipulative ads? We have no easy answers to these questions, though they have taken on special urgency as technology has expanded the range of advertising even to our smartphones.

## Is Subliminal Advertising Real?

It may be possible for marketing to be unfairly persuasive in ways that overwhelm the better judgment of

consumers. Whether it is the consumers' responsibility to resist or marketers' to tone down their appeals, or both, will continue to be debated. Yet the question of where responsibility lies when consumers are steered to make choices certainly has ethical ramifications.

Some psychologists and educational specialists claim that the very old and the very young are particularly ill prepared to exercise good judgment in the face of **subliminal advertising**, that is, embedded words or images that allegedly reach us only beneath the level of our consciousness. Other experts, however, disagree and insist that subliminal advertising is an urban myth that no current technology could create or sustain.

A U.S. journalist, Vance Packard, published *The Hidden Persuaders* in 1957, contending that subliminal messaging had already been introduced into some U.S. cinemas to sell more refreshments at the theaters' snack bars. Alarms sounded at the prospect, but it turned out that any data on which Packard was relying came from James Vicary, a U.S. market researcher who insisted he had engineered the feat in a cinema in New Jersey. No other substantiation was provided, and Vicary's claim was eventually dismissed as self-promotion, which he seemed to concede in an interview five years later. Although the immediate threat of subliminal advertising receded, some people remain concerned that such persuasion might indeed be possible, especially with the advent of better technologies, like virtual reality, to implement it.<sup>18</sup>

A 2015 study at the University of South Carolina found that thirsty test subjects placed in the role of shoppers in a simulated grocery store could be subliminally influenced in their choice of beverages *if* they were primed by images of various beverage brands within fifteen minutes of acknowledging being thirsty. After that window of time passed, however, any impact of subliminal messaging receded.<sup>19</sup>

So the scientific evidence establishing any real phenomenon of subliminal advertising is inconclusive. Put another way, the evidence to this point does not definitively demonstrate the existence of a current technology making subliminal marketing pitches possible. Given this, it cannot be clearly determined whether such a technology, if it did exist, would be effective. Another question is whether virtual reality and augmented reality might eventually make subliminal advertising viable. Real subliminal persuasion might render children, the elderly, and those with developmental disabilities more vulnerable to falling prey. Could even the most skeptical viewer resist a message so powerfully enhanced that the product can be sampled without leaving home? Would you be in favor of federal government regulation to prevent such ads? What sort of ethical imperatives would you be willing to request of or impose on sophisticated marketers?

## LINK TO LEARNING

Is subliminal messaging real? Watch this [video where BBC Earth Lab investigates a bit whimsically what truth might lie in the claim that subliminal advertising is real \(https://openstax.org/l/53subliminal\)](https://openstax.org/l/53subliminal) to learn more.

Advertising plays a useful role in informing consumers of new or modified products and services in the marketplace, and wise purchasers will pay attention to it but with a discerning eye. Even the exaggerated claims that often accompany ads can serve a purpose as long as we do not unquestioningly accept every pitch as true.

## 9.3 The Insurance Industry

### Learning Objectives

By the end of this section, you will be able to:

- Discuss whether the underlying business model of the insurance industry is an ethical one
- Identify the reasons why the government offers certain kinds of insurance
- Discuss the ethical issues in insurers' decisions whether to offer disaster insurance
- Explain the concept of redlining

Although the concept of insurance dates back to antiquity, the insurance industry as a profession came of age in the seventeenth century, when maritime trade in valuable commodities like coffee, tea, cocoa, sugar, and silk became an immense industry, but one fraught with uncertainty. Merchants sought a means to limit their financial losses in the event their cargoes were lost at sea.

In England, merchants and shippers gathered together in associations, or syndicates, to distribute the risk of loss as evenly as possible. For a fee, individual merchants and ships' owners in these syndicates could buy insurance, essentially the right to be financially compensated by the syndicate's fund for their loss if their shipments or vessels sank. The first such association of traders and shippers began at Samuel Lloyd's coffee house, on Tower Street near the River Thames, in 1688. This was the origin of the huge insurance market now known as Lloyd's of London,<sup>20</sup> and from these early forms of group insurance sprang the profession as it exists today.

From the seventeenth century to the present, the profession has faced a fundamental ethical quandary: An insurance company makes money when purchaser fees, called **premiums**, are numerous and **claims**, requests for monetary compensation for covered losses, are few. But the reality is that accidents occur, whether they take the form of shipping losses, vehicular collisions, or home or business fires. So insurance carriers set customer premiums at a high enough rate to compensate themselves with a baseline profit when claims for compensation arise. The ethical question then is what constitutes a *reasonable* profit. The way the industry defines "reasonable" is directly reflected in the premiums it sets, which also take into account actuarial and statistical calculations of the historic frequency of the occurrence of various claims.

### How Insurance Works

The irony of insurance coverage of any sort is that we buy it hoping never to use it. Still, business and consumers alike appreciate that a catastrophic loss can be financially devastating and so they seek to protect against it. Insurance coverage does not prevent illness, accidents, or other unforeseen events from occurring, but it does offer a means to recover, at least partially, from the monetary costs associated with them.

Insurance policies constitute a form of contract between insurers and the insured. To reduce their losses in those situations in which they must pay on a claim, insurers do their best to attach high premiums to the coverage and identify exclusions and limits on it. They worry about being forced to pay out on frivolous and exaggerated claims, while policyholders fear that on the rare occasions when they will have to file a claim, their reimbursement will be minuscule and/or their future premiums will rise. From the perspective of the consumer, the guarantee of a fair payout on a claim is the only inducement to pay insurance premiums in the first place.

## WHAT WOULD YOU DO?

### Valuing Your Inventory versus Valuing Your Employees

Assume you are the owner of a small apparel manufacturer with approximately fifty employees. Your business is located in a blighted area of town where the jobs you provide are important, but the insurance costs of doing business there are significant, too. Recently, fire and theft coverage has escalated in cost, but it is essential to protect your premises and inventory, and local ordinances require that you purchase it. You have customarily provided health coverage for your employees and their families, which many of them would not be able to afford if they had to bear the cost themselves. You would like to continue providing this coverage—though, due to your small employee base, you are not legally obligated to do so—but these costs have risen too. Finally, you would prefer to stay in this location, because you feel an obligation to your workers, most of whom live nearby, and because you feel welcomed by the community itself, which includes some longtime customers. Still, you may be forced to choose between paying for your employee health care costs and moving to a different area of town where fire and theft coverage would not cost as much.

#### Critical Thinking

- How will you make the decision within an ethical framework?
- What will you, your business, and your employees gain and lose based on what you decide?
- What, if anything, do you and your business owe the community of which you have been a part for so long?

Insurance protections are, in fact, limited. In August 2017, Hurricane Harvey dumped fifty-two inches of rain on Houston, Texas, accompanied by fierce winds. Tens of thousands of homes, stores, factories, and other industrial sites suffered severe damage and flooding. Although normal homeowners' and business owners' insurance provides for loss due to hurricane winds, it does not cover loss due to flooding. As *The Economist* observed in the immediate aftermath of the hurricane, "whereas wind damage is covered under most standard insurance policies in America, flood insurance is a government-run add-on that far from all homeowners buy. As a result, of over \$30 billion in property losses in Texas, only 40 percent may be insured."<sup>21</sup>

Not only do few homeowners buy flood insurance; few private insurers offer it. After all, most insurance carriers are for-profit, and companies would make little money insuring everyone against flood damage in flood-prone areas. It would be a losing proposition for any carrier to undertake, because insurance companies enjoy their highest returns when claims are few and payouts small. But the federal government is not a commercial broker and does not intend to make a profit from extending any sort of insurance coverage. For that reason, the National Flood Insurance Act of 1968 established a way to dispense flood coverage through a federal agency. Today that supervising agency is the Federal Emergency Management Authority (FEMA), in partnership with the Department of Homeland Security ([Figure 9.4](#)). As of August 2017, just before Harvey struck, some five million households had taken out FEMA-sponsored flood coverage.<sup>22</sup>





**Figure 9.4** The National Flood Insurance Program in the United States is part of the Federal Emergency Management Agency (FEMA). (credit: modification of “National Flood Insurance Program 50th Anniversary Logo – white background” by FEMA/fema.gov, Public Domain)

### LINK TO LEARNING

Consumers’ criticisms of the insurance industry are not limited to the United States; they pose an international issue for the profession. Read this *Sydney Morning Herald* [article that explores the causes of controversy that haunt insurance carriers in Australia \(https://openstax.org/l/53insurance\)](https://openstax.org/l/53insurance) to learn more. Principally, they center on the lengths to which insurers might go to disallow a claim and so dispose of their obligation to pay out on it, at least according to some consumer watchdogs.

The California Earthquake Authority serves a similar function at the state level by managing privately funded insurance against earthquakes in California. The private brokers in the program make no profit from offering this coverage, but they do earn the right to offer (and profit from) other insurance in California.

## The Ethical Dilemma of Insuring against Natural Disasters

We do not know with certainty what effect climate change will have on the incidence or severity of natural disasters (i.e., accidents that do not appear to have any direct human cause). We do know, however, that these events can be ruinously expensive, for the carriers that insure against them and for those who suffer them and must put their lives back together afterward.

Business writer Don Jergler said, for example, that “climate change has created a ‘wildfire crisis in California,’ which in turn is ‘causing a fire insurance predicament.’” California insurance commissioner Dave Jones warned in December 2017, after a particularly disastrous fire season in California, that “insurers may start to back off writing insurance in some areas [of the state],” and this would pose a crisis for homeowners who consequently lost insurance protection against losses caused by wildfires.<sup>23</sup>

In Canada, too, “environmental risks linked to climate change are becoming important issues for insurers who need to consider their response to related risks and climate related losses whether arising from weather related events such as flood and storms or liability risks from third party claims.”<sup>24</sup>

When insurance carriers must pay claimholders more often on claims arising from natural disasters, they lose

money at a rate that could make them less willing to underwrite similar policies in the future. This unwillingness, in turn, would deny coverage against these disasters to an increasing number of individuals and companies. The high cost of disaster claims and subsequent shrinking of policy offerings are losses first experienced by the insurance industry, but they have rapid and dire consequences for policyholders.

Again, we come to the ethical conundrum as to what we might fairly expect from insurance carriers and from clients who seek to indemnify themselves against natural disasters. In regions where certain kinds of disasters are more likely to occur, is it reasonable to dictate that carriers still must provide coverage? If so, should we consider extending public subsidies to the carriers to protect them against catastrophic payouts? Should premiums be assigned on the basis of the incidence patterns and severity of risk associated with particular disasters in certain regions? With these questions, we return to the ethical consideration of what constitutes a reasonable profit for carriers and what premium policy holders ought to be charged for sufficient coverage.

The United States does not have the strong tradition of private/public ownership of industries, such as petroleum extraction or air travel that some other nations do.<sup>25</sup> Essentially, private/public ownership is an arrangement in which private (industry) and public (government) monies are combined to more safely bear an industry's risk and also share in its profit. It is often a successful partnership. When we consider the scale of loss that can result from natural disasters, and the extent of the public's need for protection from such loss, insurance may be a U.S. industry in which private/public ownership of some policies would be appropriate. The National Flood Insurance Program and the California Earthquake Authority are rare examples of public agencies managing insurance coverage that private insurers have declined to provide because the potential for profit is too low. Whether partnerships like this can and should be expanded, and whether they can be funded from federal and state budgets, are ethical questions for federal and state governments and policyholders alike.

## CASES FROM THE REAL WORLD

### What Does the Future Hold for the Insurance Industry?

Many insurance carriers enjoy a robust business. As an example, UnitedHealth Group Incorporated, headquartered in Minnesota, had about \$185 million in sales in 2017 and employed approximately 230,000 people. Still, as an industry report from the business research company Hoovers established, insurers of all stripes, health or auto or property or anything else, face two major hurdles. First, they "are increasingly subject to a large number of regulations and reporting requirements by states. Consequently, some insurers have withdrawn from states that impose burdensome requirements." Second, large-scale "claims have become more common, creating problematic concentrations of risk for individual insurers. . . . And some risks can be large enough to drive insurers out of business or cause them to curtail services offered, increase rates, or leave states where risk is highest."<sup>26</sup> Thus, profits can be high within the industry, but so can payouts in the aftermath of major catastrophes. The report goes on to say that "floods, hurricanes, and tornadoes" produce the riskiest economic circumstances for the industry. Consequently, states in which these weather events are more common—Alabama, Florida, and North Carolina—have seen some carriers cease business operations within them.<sup>27</sup>

### Critical Thinking

- In selecting coverage and setting prices, how does an insurance company choose the ethical

balance between making a reasonable profit and risking catastrophic losses of its own?

- Should the law require that carriers offer property insurance in states where harsh natural disasters occur? Or should federal and state monies be used to subsidize insurance companies' resources in these circumstances? In each case, why or why not?

## Redlining: Discrimination in Insurance

A specific ethical challenge within the insurance profession is the tendency to engage in **redlining**. Redlining is the practice of assigning or denying coverage for certain policies, such as auto, homeowners, or business insurance, on the basis of the geographic neighborhoods where applicants for such coverage live, particularly inner-city neighborhoods. A variation on the practice is to charge considerably higher prices for the same coverage in different neighborhoods. Redlining assumes that the propensity for accidents, burglaries, fires, and other catastrophes is higher in some areas than others, so claims and costs will be higher for the insurance carrier.

At first glance, this practice appears to make economic sense from the perspective of both the insurer and the insured. Looking beneath the surface, however, reveals that redlined neighborhoods are often areas where racial and ethnic minorities live. No insurance carrier ever admits to engaging in discriminatory redlining (the term refers to an older practice by which insurance companies marked certain neighborhoods in red on print copies of coverage maps). Nearly every state in the United States forbids the practice. Yet a comprehensive 2017 study by *Consumer Reports* and ProPublica, a nonprofit research organization, indicated the phenomenon may remain very much a reality. This study focused on rates for auto insurance and found that for “decades, auto insurers have been observed to charge higher average premiums to drivers living in predominantly minority urban neighborhoods than to drivers with similar safety records living in majority white neighborhoods. Insurers have long defended their pricing by saying that the risk of accidents is greater in those neighborhoods, even for motorists who have never had one.”<sup>28</sup>

The authors of the report compared auto insurance premiums and claims paid in four states (California, Illinois, Missouri, and Texas) and found similar results whether the carrier was Allstate, Geico, Liberty Mutual, or another. They contended “that many of the disparities in auto insurance prices between minority and white neighborhoods are wider than differences in risk can explain.”<sup>29</sup> This is significant because laws do typically permit premium rates to be set according to the incidence of claims filed within certain neighborhoods. Yet laws never allow rates to be based solely or predominantly on the race or ethnicity of the residents in different neighborhoods. This is the essence of prohibited redlining. Professionals in the industry do well to steer clear of this practice or even the appearance of it, and that is the overriding theme of this study.

Drawing back, the ethical challenge for any responsible carrier is to ensure that the race, ethnicity, or creed of any policyholder plays absolutely no role in the premiums assigned him or her. There is no defensible reason to base a carrier's decision to extend or deny insurance coverage or assign the premium amount for it on these factors.

### 9.4 Ethical Issues in the Provision of Health Care

#### Learning Objectives

By the end of this section, you will be able to:

- Identify ethical problems related to the availability and cost of health care in the United States and elsewhere
- Discuss recent developments in insuring or otherwise providing for health care in the United States

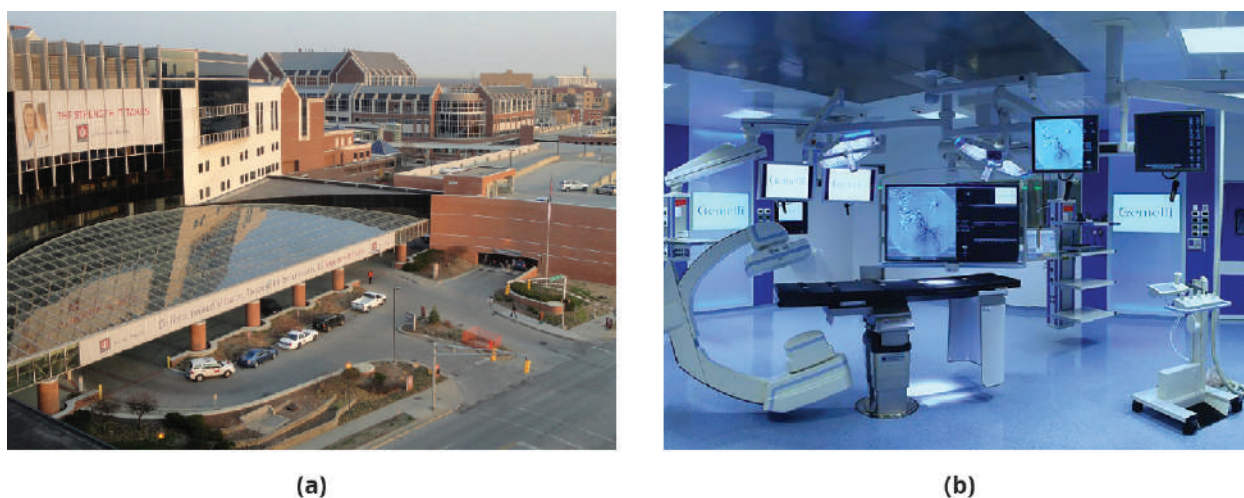
Private health care in the United States has historically been of high quality and readily available, but only for those who could afford it. This model for rationing health services is rare in the developed world and stands in dramatic contrast to the provision of health care in other industrialized economies. Those who provide health care and administer the health care system find that balancing the quality of, access to, and cost of medical care is an ethical dilemma in which they must continually engage.<sup>30</sup>

## Multipayer Health Care in the United States

Typically in the United States, medical services have been dispensed through a **multipayer health care system**, in which the patient and others, such as an employer and a private health insurance company, all contribute to pay for the patient's care. Germany, France, and Japan also have multipayer systems. In a **single-payer health care system** such as those in the United Kingdom and Canada, national tax revenues pay the largest portion of citizens' medical care, and the government is the sole payer compensating those who provide that care. Contributions provided by employers and employees provide the rest. Both single- and multipayer systems help reduce costs for patients, employers, and insurers; both, especially single-payer, are also heavily dependent on taxes apportioned across employers and the country's population. In a single-payer system, however, because payment for health care is coordinated and dispensed by the government, almost no one lacks access to medical services, including visitors and nonpermanent residents.

Many reasons exist for the predominance of the multipayer system in the United States. Chief among these is the U.S. tradition that doctors' services and hospital care are privatized and run for profit. The United States has no federal health care apparatus that organizes physicians, clinics, and medical centers under a single government umbrella. Along with the profit motive, the fact that providers are compensated at a higher average rate than their peers abroad ensures that health care is more expensive in the United States than in most other nations.

The United States also has more health care professionals per citizen than most other countries, and more medical centers and clinics ([Figure 9.5](#)). One positive result is that the wait for most elective medical procedures is often shorter than in other countries, and travel time to a nearby medical facility is often less. Still, paying for health care remains one of the most controversial topics in the United States, and many question what it is that Americans gain from the current system to balance the cost. As an exhaustive study from The Commonwealth Fund asserted, "the United States spends far more on health care than other high-income countries, with spending levels that rose continuously over the past three decades. . . . Yet the U.S. population has poorer health than other countries."<sup>31</sup>



**Figure 9.5** The Indiana University Health University Hospital (a) is an example of a contemporary medical center affiliated with a university medical school, in this case on the Indiana University–Purdue University Indianapolis campus. This is indicative of a common partnership through which hospitalization and medical-school education are made available in the United States. This type of affiliation also exists abroad, as evidenced by this state-of-the-art operating facility (b) at the Gemelli University Hospital in Rome, Italy. (credit a: modification of “Indiana University Hospital - IUPUI - DSC00508” by “Daderot”/Wikimedia Commons, Public Domain; credit b: modification of “Hybrid operating room for cardiovascular surgery at Gemelli Hospital in Rome” by “Pfree2014”/Wikimedia Commons, CC0)

Besides its inefficiencies, the state of U.S. health care raises challenging ethical issues for professionals in the field and for patients as well. What happens if many poorer people cannot afford health care? Should doctors treat them anyway? Who is qualified to receive subsidized (insured) health care? In the absence of universal health care, which is generally ensured elsewhere by a single-payer system that entitles everyone to receive care at very low cost, can the United States truly boast of being the richest nation on Earth? Put another way, when the least materially advantaged in a country do not have access to quality health care, what is the worth such a nation patently is assigning to those human beings residing within it?

Supporters of the status quo for health care in the United States may point to state-of-the-art facilities as evidence of its success. Yet other nations, such as Australia, the United Kingdom, and the Netherlands, have equal levels of medical technologies available for patients and are given much more favorable marks for universal health insurance and accessibility by The Commonwealth Fund.

## The High Cost of Prescription Drugs

Discussions of health care accessibility have become politically charged, so for now it is enough to observe that not only is medical care enormously expensive in the United States but so are prescription drugs. According to William B. Schultz, an attorney writing in the *Washington Post* in 2017, “in the past 35 years, the only significant victory in the battle to control drug prices has been the enactment of legislation that established the generic drug program at the FDA [Federal Drug Administration].” Otherwise, he stated, “prescription drug prices account for 17 percent of the nation’s health-care costs, up from 7 percent in the 1990s,” and “prescription drug spending accounts for nearly 20 percent of total program spending for Medicare, the largest of the governmental health-care programs.”<sup>32</sup> (Schultz is not entirely impartial; he is a partner in a law firm that represents generic drug providers, among other clients.)

## LINK TO LEARNING

The *New York Times* asked its readers to relay their experiences as purchasers of prescribed medicines that they thought carried much too high a price tag. This [article on some of the reader responses to drug prices \(https://openstax.org/l/53DrugPrices\)](https://openstax.org/l/53DrugPrices) was reported by two journalists at the paper, Katie Thomas and Charles Ornstein.

The only way to recoup the enormous cost of developing new drugs, says the pharmaceutical industry, is to pass it along to consumers. Critics, on the other hand, assert that the much of the expense incurred within the industry results from the high cost of marketing new drugs. Wherever the truth lies in this debate, it remains that exorbitant prices for much-needed medicines dramatically reduce their social value when only a few individuals can actually afford to obtain them. What does it say of our priorities if we have the technology to create life-saving medicines but allow astronomic prices effectively to deny them to many patients who require them?

## Paying for Health Care and Wellness

Within the multipayer system, many U.S. workers have traditionally looked to their employers or their unions to subsidize the cost of care and thereby make it available for them and their families. Many reasons explain why this is so. In contrast to the European and Canadian perspective, for example, in which both the state and employers are presumed to have an interest in and responsibility for underwriting the cost of health care, the traditional U.S. approach is that workers and their employers should be responsible for securing this coverage. This belief reflects an unease on the part of some about assigning services to the government, because this implies the need for a larger governing entity as well as additional taxes to sustain it. The sentiment also reflects a conviction on the part of some that self-reliance is always to be preferred when securing the necessities of life.

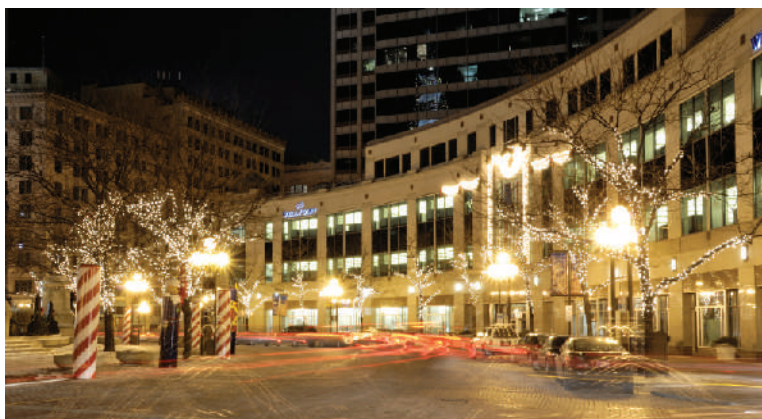
John E. Murray, a professor of economics at the University of Toledo, offered a related explanation. He cited the existence of industrial sickness funds in the United States, which arose in the late nineteenth and early twentieth centuries. These were monies “organized by workers through their employer or union [that] provided the rudiments of health insurance, principally consisting of paid sick leave, to a large minority of the industrial workforce of the late nineteenth and early twentieth centuries.”<sup>33</sup> Murray stated that these funds declined in popularity not because they were ineptly administered or rendered bankrupt by World War I or the Great Depression but rather because they gave way to even more effective instruments in the form of group insurance policies offered by employers or labor unions.

So the U.S. worker’s experience differed from that of European labor in that much significant health care coverage was provided under the auspices of unions and employers rather than the state. Murray noted another source of relief for workers who experienced illness or injury that prevented them from working for any period of time, and that was charity.<sup>34</sup> Specific versions of charity were offered by religious organizations, including Christian churches and Jewish synagogues. Often, these religious bodies banded together to provide monetary benefits for sick or injured members of their own faith who might otherwise have been denied health coverage due to prejudice.<sup>35</sup> The U.S. social experience featured more ethnic and cultural diversity, especially in the nineteenth and early twentieth centuries, than was present in many European nations, and a downside is the racial, ethnic, and religious prejudice it inspired.



A final distinction Murray pointed to is the past opposition of the American Medical Association to any sort of state-sponsored insurance. Early supporters of industrial sickness funds, including some physicians, anticipated that most doctors would support these funds as pathways ultimately directed to state-provided coverage. Instead, in 1920, “the American Medical Association voted officially to state its opposition to government health insurance. A sociologist concluded that from this time to the 1960s, physicians were the loudest opponents of government insurance.”<sup>36</sup> By default, then, many U.S. workers came to rely more on their employers or unions than on any other source for coverage. However, this explanation does not answer the larger ethical question of who *should* provide health insurance to residents and citizens, a question that continues to roil politics and society in the nation even today.

More recently, large corporations have moved from providing one-size-fits-all insurance plans to compiling a menu of offerings to accommodate the different needs of their employees. Workers with dependent children may opt for maximum health care coverage for their children. Employees without dependents or a partner may elect a plan without this coverage and thereby pay lower premiums (the initial cost for coverage). Yet others might minimize their health-insurance coverage and convert some of the employer costs that are freed up into added pension or retirement plan value. Employers and workers have become creative in tailoring benefit plans that best suit the needs of employees ([Figure 9.6](#)). Some standard features of such plans are the **copayment**, a set fee per service paid by the patient and typically negotiated between the insurance carrier and the employer; the annual **deductible**, a preset minimum cost for health care for which the patient is responsible each year before the carrier will assume subsequent costs; and percent totals for certain medical or dental procedures that patients must pay before the carrier picks up the remainder.



**Figure 9.6** Anthem Inc. (formerly WellPoint, Inc.), headquartered in Indianapolis, Indiana, is one of the largest health care vendors in the nation, with more than fifty thousand employees and nearly \$2.5 billion in net revenue in fiscal year 2016. (credit: modification of “Company headquarters on Monument Circle in Indianapolis” by Serge Melki/Wikimedia Commons, CC BY 2.0)

Despite the intricacies of this customization, employers have found the group coverage policies they offer to be expensive for them too, more so with each passing year. Full health care coverage is becoming rarer as a standard employment benefit, and it is often available only to those who work full time. California, for example, stipulates that most workers need not be provided with employer health care coverage unless they work at least twenty hours a week.

Rising costs for both employers and employees have combined to leave fewer employees with health care benefits at any given time. Employees with limited or no coverage for themselves and their dependents often cope by cutting back on the medical attention they seek, even when doing so places their health at risk.

Whenever workers must skip medical services due to cost considerations, this places both them and their employers in an ethical quandary, because both typically want workers to be in good health. Furthermore, when employees must deny their dependents appropriate health care, this dilemma is all the more intensified.

To try to reduce the costs to themselves of employee health care insurance coverage, some companies have instituted **wellness programs** to try to ensure that their workforces are as healthy as possible. Some popular wellness program offerings are measures to help smokers quit, workout rooms on work premises or subsidized gym memberships, and revamped vending and cafeteria offerings that provide a range of healthier choices. Some companies even offer employees bonuses or other rewards for quitting smoking or achieving specific fitness goals such as weight loss or miles walked per week. Such employer efforts appear benign at first glance, because these measures truly can produce better health on the part of workers. Still, ethical questions arise as to who the true beneficiaries of such policies are. Is it the employees themselves or the companies for which they work? Furthermore, if such measures were to become compulsory rather than optional, would it still reflect managerial benevolence toward employees? We discuss this in the following paragraphs.

Wellness programs were inspired by *safety programs* first created by U.S. manufacturers in the 1960s. These companies included Chrysler, DuPont, and Steelcase. Safety programs were intended to reduce workplace accidents resulting in injuries and deaths. Over the years, such programs slowly but steadily grew in scope to encompass the general health of employees on the job. As these policies have expanded, they also have fostered some skepticism and resistance: "Wellness programs have attracted their share of criticism. Some critics argue workplace programs cross the line into employees' personal lives."<sup>37</sup> Ann Mirabito, a marketing professor at the Hankamer School of Business at Baylor University agrees there is potential for abuse: "It comes back to the corporate leader. . . . The best companies respect employees' dignity and offer programs that help employees achieve their personal goals."<sup>38</sup>

Employees who exercise, eat healthily, maintain their ideal weight, abstain from smoking, and limit their alcoholic consumption have a much better chance of remaining well than do their peers who undertake none of these activities. The participating employees benefit, of course, and so do their employers, because the health insurance they provide grows cheaper as their workers draw on it less. As Michael Hiltzik, a consumer affairs columnist for the *Los Angeles Times*, noted, "Smoking-cessation, weight-loss and disease-screening programs give workers the impression that their employers really care about their health. Ostensibly they save money too, since a healthy workforce is cheaper to cover and less prone to absenteeism."<sup>39</sup>

Certainly, employers are also serving their own interests by trying to reduce the cost of insuring their workers. But are there any actual disadvantages for employees of such wellness programs that employers might unethically exploit? Hiltzik suggested one: "The dark downside is that 'voluntary' wellness programs also give employers a window into their workers' health profiles that is otherwise an illegal invasion of their privacy."<sup>41</sup> Thus the health histories of workers become more transparent to their bosses, and, Hiltzik and others worry, this previously confidential information could allow managers to act with bias (in employee evaluation and promotion decisions, for instance) under cover of concern about employees' health.

The potential for intrusion into employee privacy through wellness programs is alarming; further, the chance for personal health data to become public as a consequence of enrolling in such programs is concerning. Additionally, what about wellness rules that extend to workers' behavior off the job? Is it ethical for a company to assert the right to restrict the actions of its employees when they are not on the clock? Some, such as researchers Richard J. Herzog, Katie Counts McClain, and Kymberleigh R. Rigard, argue that workers surrender a degree of privacy simply by going onto payroll: "When employees enter the workplace, they forfeit external privacy. For example, BMI [body mass index] can be visually calculated, smokers can be observed, and food

intake monitored.” They acknowledge, however, that “protecting privacy and enhancing productivity can provide a delicate balance.”<sup>40</sup>

## LINK TO LEARNING

As noted in previous chapters, we can find out a great deal about the ethical intentions of a company by studying its mission statement, although even the noblest statement is irrelevant if the firm fails to live up to it. Here is [Anthem, Inc.’s very simple and direct mission statement \(https://openstax.org/l/53AnthemMission\)](https://openstax.org/l/53AnthemMission) as an example from a health care insurer. What impression does this statement leave with you? Would you add or delete anything to it? Why or why not?

## The Affordable Care Act

Health care reform on a major scale emerged in the United States with the passage of the Patient Protection and Affordable Care Act, more commonly known as the **Affordable Care Act (ACA)**, in March 2010, during the Obama Administration. The ACA (so-called Obamacare) represents a controversial plan that strikes its opponents as socialist. For its supporters, however, it is the first effective and comprehensive plan to extend affordable health care to the widest segment of the U.S. population. Furthermore, like most new federal policies, it has undergone tweaks and revision each year since becoming law. The ACA is funded by a combination of payments by enrollees and supplemental federal monies earmarked for this task.

The ACA mandates a certain level of preventive care, a choice of physicians and health care facilities, coverage at no extra cost for individuals with preexisting health conditions, protection against the cancellation of coverage solely on the basis of becoming ill, and mental health and substance abuse treatment, all of which must be met by carriers that participate in the plan. The ACA also permits its holders to select from a number of marketplace plans as opposed to the limited number of plans typically offered by any given employer.<sup>42</sup> All in all, it is a far-reaching and complex plan whose full implications for employers and their employees have yet to be appreciated. Preliminary results seem to indicate that employer-provided coverage on a comprehensive scale remains a cheaper alternative for those workers eligible to receive it.<sup>43</sup> Given the general efficiency of group insurance policies provided by U.S. employers, an ethical issue for all managers is whether these policies offer the best care for the greatest number of employees and so should be the responsibility of management to offer whenever it is possible to do so. Current law requires all companies employing fifty or more workers to make insurance available to that part of their workforce that qualifies for such coverage (e.g., by virtue of hours worked). Is it right, however, to leave the employees of smaller firms to their own devices in securing health care? Even if the law does not require it, we hold that an ethical obligation resides with small businesses to do everything in their power to provide this coverage for their employees.

Evidence of the intense debate the act has engendered is the Trump administration’s attempts, beginning in January 2017, to repeal the ACA entirely, or at least to dilute significantly many of its provisions. Nearly immediately upon his inauguration, President Trump signed Executive Order 13765 in anticipation of ending the ACA. Also that same month, the American Health Care Act was introduced in the House of Representatives, again with an eye to eliminating or seriously weakening the existing act. Much political debate within both the House and Senate ensued in 2017, with proponents of the ACA seeking to ensure its survival and opponents attempting (but, as of this writing, failing) to repeal it.

The ACA represents the first far-reaching health care coverage to take effect since 1965, after many stalled or otherwise frustrated attempts. Since the passage that year of the Medicare and Medicaid Act, which provided health coverage to retired, elderly, and indigent citizens, many presidential administrations, Democrat and Republican alike, have worked to enlarge health care coverage for different segments of the national population. In addition to expanding eligibility for benefits, the Medicare and Medicaid Act had direct implications for business proprietors and their employees. For one, the act set up new automatic earnings deductions and tax schedules for workers and employers, and employers were made responsible for administering these plans, which help fund the programs' benefits.

The future of the ACA appears to depend on whether a Democrat or Republican sits in the White House and which party controls the Senate and the House in the U.S. Congress. Although legislation does hinge on the political sentiments of the president and the majority party in Congress, what is ethical does not lend itself to a majority vote. So regardless of whether the ACA survives, is revised, or is replaced entirely by new health care legislation, the provision of health care will likely continue to pose ethical implications for U.S. business and the workers who are employed by it.

The ethical debate over universal health care coverage is larger even than business and its employees, of course, but it still carries immense consequences for management and labor irrespective of how the ACA or other legislation fares in the halls of government and the courts. An ethical dilemma for employers is the extent to which they should make health coverage available to their workers at affordable rates, particularly if federal and state government plans provide little or no coverage for residents and the costs of employer-provided coverage continues to climb.

## State-Level Experiments with Single-Payer Health Care Plans

Against the backdrop of federal attempts to institute national health care over the past several decades, some individual states in the United States have used their own resources to advance this issue by proposing mandated health care coverage for their citizens. For example, in April 2006, Massachusetts passed An Act Providing Access to Affordable, Quality, Accountable Health Care, the first significant effort at the state level to ensure near-universal health care coverage.

The Massachusetts act created a state agency, the Commonwealth Health Insurance Connector Authority, to administer the extension of health care coverage to Massachusetts residents. In many ways, it served as the most significant precursor of and guide for the federal ACA, which would follow approximately four years later. By many accounts, the Massachusetts legislation has achieved its purposes with few negative consequences. As Brian C. Mooney, reporting in the *Boston Globe*, put it about five years after the act's passage: "A detailed *Globe* examination [of the implementation of the act] makes it clear that while there have been some stumbles—and some elements of the effort merit a grade of 'incomplete'—the overhaul, after five years, worked as well as or better than expected."<sup>44</sup>

The proposed Healthy California Act (SB 562) is another example. SB 562 passed in the California State Senate in June 2017. However, the Speaker of the Assembly, the lower house of the legislature, blocked a hearing of the bill at that time, and a hearing is necessary for the bill to advance to ratification. A new effort was initiated in February 2018 to permit the bill finally to be considered by the lower house. (Two differences between the California bill and the Massachusetts Act include the number of state residents who would be affected. Massachusetts has a population of about seven million compared to California's nearly forty million. A second distinction is that SB 562 constitutes a single-payer plan, whereas the Massachusetts Act does not.)

Single-payer health care plans essentially concentrate both the administration of and payment for health care

within one entity, such as a state agency. California's effort is a very simple plan on its face but complex in its implementation. Here is how Michael Hiltzik summarized the intent of California Senate Bill 562: "The program would take over responsibility for almost all medical spending in the state, including federal programs such as Medicare and Medicaid, employer-sponsored health plans, and Affordable Care Act plans. It would relieve employers, their workers and buyers in the individual market of premiums, deductibles and copays, paying the costs out of a state fund."<sup>45</sup> The bill would create a large, special program apparatus tentatively entitled Healthy California. It is contentious on many fronts, particularly in that it would create the largest single-payer health insurance plan sponsored by a U.S. state and the scope of the plan would necessitate a huge bureaucracy to administer it as well an infusion of state monies to sustain it. Furthermore, it would extend health care coverage to all residents of the state, including undocumented immigrants.

A specific hurdle to passage of Healthy California is that it would cost anywhere from \$370 billion to \$400 billion and would require federal waivers so California could assume the administration of Medicare and Medicaid in the state as well as the federal funds currently allotted to it. All these conditions would be enormously difficult and time consuming to meet, even if the federal government were sympathetic to California's attempts to do so. In 2018, that was decidedly not the case.

Is free or inexpensive access to health care a basic human right? If so, which elements within society bear the principal responsibility for providing it: government, business, workers, all these, or other agencies or individuals? This is a foundational ethical question that would invoke different responses on the part of nearly everyone you may ask.

## ETHICS ACROSS TIME AND CULTURES

### Free Universal Health Care

Except for the United States, the largest advanced economies in the world all provide a heavily subsidized **universal health care system**, that is, a publicly funded system that provides primary health services to all, usually at a nominal fee only and with no exclusions based on income or wealth. Although these systems are not perfect, their continued existence seems assured, regardless of the cultural or political framework of the various countries. A logical question is why the United States would be an outlier on this issue, and whether that might change in the future.

Some answers, as noted in the text, lie in the United States' historical reliance on a mostly private system, with approximately 83 percent of health care expenses provided by the private sector through insurers and employers (in contrast, this percentage in the United Kingdom is 17). A solution that has gained traction in recent years is conversion to a single-payer system. How might this work? One article estimates that the cost of instituting a national, single-payer health care insurance program in the United States would be \$32 trillion over ten years. If this estimate is accurate, would it be an exorbitant price tag for such a program, or would it be money well spent in terms of making good health care available to all citizens?<sup>46</sup>

### Critical Thinking

- Do you find it appropriate that health care costs be provided by a mix of private versus public sources?
- What advantages might single-payer health care offer over employer-provided coverage, care

provided under the ACA, or privately purchased health insurance?

As a nation, the United States has usually preferred a system predicated on private health care providers and insurers to pay for it. This arrangement has worked best in instituting high-quality care with minimal delays even for elective medical procedures. It has systematically failed, however, in establishing any sort of universal dispensation that is affordable for many citizens.

In the early twenty-first century, the United States is moving ever so slowly and with plenty of hiccups toward some degree of national or state management of health care. Precisely where these efforts will take us may not be clear for the next several years. The political, economic, and ethical dimensions of public management of our health care drive considerable controversy and very little agreement.



## Key Terms

**advertising** commercial messages urging the purchase of new or improved products or services that reach us in every medium: print, online, digital, television, radio, and outdoor

**Affordable Care Act (ACA)** the Patient Protection and Affordable Care Act of 2010, often known as the Affordable Care Act or simply “Obamacare,” a comprehensive federal health care management system

**claim** a request to an insurance carrier for monetary compensation for a loss sustained by a customer

**copayment** a partial charge for covered care negotiated by the provider and the employer and paid by the employee

**deductible** the annual portion of health care costs the patient must assume before full insurance coverage applies

**entrepreneur** a business leader willing to take on the risk of starting a new company and offering a product or service in the hope of a profit

**entrepreneurial culture** the combination of personality and management style with which entrepreneurs shape the initial business practices and ethical environment of their firm

**multipayer health care system** a means of providing health care in which the patient and others such as an employer and a private health insurance company all pay for the patient’s care

**premiums** the fees customers pay for different forms of coverage

**psychological appeal** advertising intended to bolster consumers’ self-esteem if certain products or services are purchased

**redlining** a discriminatory (and usually illegal) insurance practice of denying certain coverages in specific neighborhoods or selling them there at a higher price

**single-payer health care system** a means of providing health care in which state or national tax revenues would pay for citizens’ medical care, with the government being the sole payer

**subliminal advertising** appeals including words and images that reach us at a level below our consciousness

**universal health care system** a means of providing health care to all, funded through taxes and overseen by the central or federal government

**wellness programs** employer initiatives that stress healthy eating, exercise, weight management, smoking cessation, and other efforts, to sustain employees’ health and reduce health care costs

## Summary

### 9.1 Entrepreneurship and Start-Up Culture

The atmosphere surrounding entrepreneurs and their start-ups can provide a dizzying rush. The opportunities to create a company, be your own boss, make a dramatic impact on business, establish an entrepreneurial culture that will be adopted by others, and possibly become rich in the process certainly all appeal to our human nature. Still, the entrepreneurial lifestyle is challenging, and the success rate for start-ups is exceptionally low. Interpersonal conflicts are prevalent in start-up environments, and entrepreneurs who seek to stay true to their vision and ethical values face a difficult road. At many points, start-up founders have to choose how they most wish to be remembered: for the sake of their business success alone or also for the ethical fashion in which they attained that success and the humane culture they have embedded in their new firm. Sometimes these are mutually exclusive goals, but the most ethical entrepreneurs do their best to ensure that both objectives mesh for themselves and their firms. This lies at the heart of any definition of ethical leadership.

## 9.2 The Influence of Advertising

The Internet and social media present new canvasses for marketing that possess great power and for which rules and ethical norms are being developed. Psychological appeals and subliminal messaging present their own ethical issues. Discerning consumers currently must rely on their own sensibility to ferret out factual claims for advertised products and bear the burden of shielding those under their charge from the worst manipulative effects of marketing.

## 9.3 The Insurance Industry

Business owners and individuals are willing to pay insurance premiums in the hope that they will never have to be file a claim for reimbursement on their policy. Because the insurance industry profits only when claims are few and small, there may be a bigger role for government to play in managing disaster insurance through a private/public partnership, such as FEMA currently does to provide flood insurance and the California Earthquake Authority does where potentially disastrous earthquakes may occur. Ethical issues such whether to expand the use of public tax revenues to subsidize these partnerships need to be resolved.

## 9.4 Ethical Issues in the Provision of Health Care

The United States, unlike countries in Europe, has little tradition of merging the efforts of the state or federal government with that of private employers in the provision of health care. Although the quality of U.S. health care has rarely been challenged, its limited accessibility has posed ethical quandaries for business because many employees necessarily look to their employers for this benefit. The 2010 Affordable Care Act is an ambitious effort to meet the need for health care for all. Individual states have considered, and sometimes enacted, programs of their own to supply universal health care.



## Assessment Questions

1. What characteristic is common to most entrepreneurs?
  - A. an advanced degree
  - B. deep management experience
  - C. a driven, highly competitive nature
  - D. a large network of business contacts
2. True or false? Entrepreneurs are usually motivated by the teamwork spirit.
3. Corporate culture comes from \_\_\_\_\_.
  - A. the commitment of the company's employees
  - B. the founder's idea of what the work environment should be like
  - C. government regulations about labor relations
  - D. the nature of the company's product or service
4. One danger a growing start-up can face is \_\_\_\_\_.
  - A. encroaching bureaucracy
  - B. lack of good employees
  - C. legal issues
  - D. venture capitalists

5. True or false? The phrase *caveat emptor* means the seller is principally responsible for purchase decisions, not the buyer.
6. True or false? Children are discerning viewers of television advertising.
7. Psychological appeals succeed when they \_\_\_\_\_.
  - A. make consumers feel better about themselves
  - B. let consumers compare themselves to their peers
  - C. show consumers how to save money
  - D. introduce new products
8. True or false? Even rational adults often fail to cast a suspicious eye to sophisticated ad pitches and end up making frivolous purchases.
9. Should insurance coverage be mandatory for in some U.S. areas, such as hurricane coverage in the Southeast, tornado coverage in the Midwest, earthquake coverage on the Pacific Coast? Why or why not? Should government subsidies help underwrite the cost of this coverage? Why or why not?
10. How prevalent has redlining been in the United States?
11. Premium rates for insurance coverage are based on statistical calculations of the historical rate of incidence of certain kinds of accidents, disasters, and theft, among other calamities against which we insure ourselves. Is this the most equitable way to assign these rates? Why or why not?
12. True or false? Business insurance is a relatively recent offering.
13. True or false? Insurance coverage offers a benefit we hope never to claim.
14. True or false? Employer-sponsored wellness programs have no downsides for employees.
15. True or false? Most European countries have multipayer health care systems like the United States.
16. In the European tradition, the main responsibility for supplying workers with health care lies with which of these groups?
  - A. the government and labor unions
  - B. labor unions
  - C. nonprofit agencies and private companies
  - D. individual workers
17. A job setting in which an employee gym and a snack bar featuring healthy foods and beverages were perks would benefit which of these groups?
  - A. the owners/managers
  - B. the customers or clients of the firm
  - C. the employees
  - D. all the above
18. Could an ethical case be made for managers dictating that employees adopt or avoid certain lifestyle practices (e.g., legally consuming cannabis) even when they are off the job? What would that argument be? What ethical counterarguments could be made?

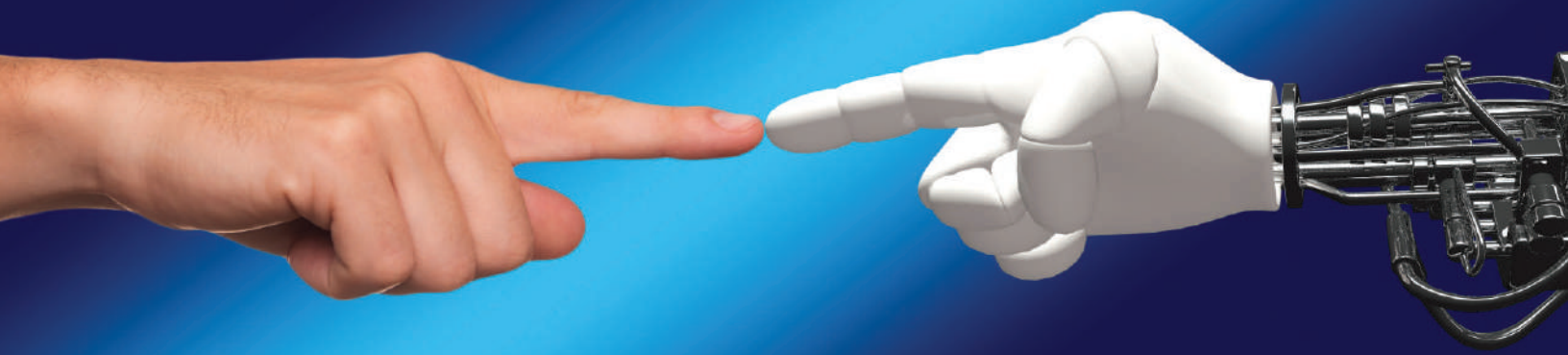


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## Changing Work Environments and Future Trends

**Figure 10.1** Ethical managers will understand new business models and the new economies being driven by technological advances and the rise of robotics and artificial intelligence in the workplace. (credit: modification of “hand robot human divine spark” by “geralt”/Pixabay, CC0)

### Chapter Outline

- 10.1 More Telecommuting or Less?
- 10.2 Workplace Campuses
- 10.3 Alternatives to Traditional Patterns of Work
- 10.4 Robotics, Artificial Intelligence, and the Workplace of the Future



### Introduction

Beginning in the eighteenth century, in much of the Western world, the Industrial Revolution transformed the nature of work as industry displaced agriculture as the main driver of the economy and machines took over manual labor. Continuing technological changes have further altered the way people work and even the time and place where they do so. Growing numbers of people now spend some of their time working at home. Are they more productive without the distractions of the office or less productive without constant monitoring by managers? Some major companies like Apple, Amazon, Facebook, and Microsoft have constructed elaborate workplace campuses, offering unprecedented levels of amenities and even employee housing. Do these campuses facilitate the balancing of work and life, or do they blur the distinction and tie workers to their jobs instead?

Job sharing and flexible work schedules have emerged as alternatives to traditional patterns of work. These practices permit some workers to more easily fulfill work and life responsibilities. But does job sharing reflect employers' efforts to respond to workers' preferences or is it a move to reduce costs?

How will you prepare employees for the impact of robots at work ([Figure 10.1](#)) or manage the outsourcing of tasks to contractors in the gig economy? These challenges to traditional employment settings carry ethical



implications for all stakeholders, including employers, employees, suppliers, customers, and clients.

## 10.1 More Telecommuting or Less?

### Learning Objectives

By the end of this section, you will be able to:

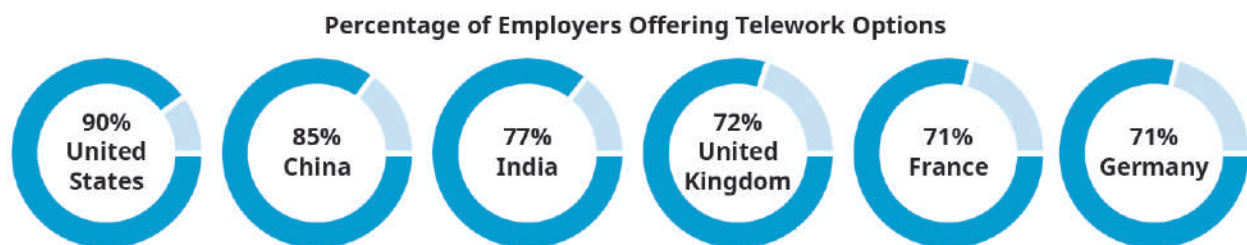
- Identify the benefits of permitting employees to work from home
- Explain the drawbacks of telecommuting for the business and for employees
- Discuss the ethical dilemmas related to telecommuting and some of the solutions

What if your business wanted to expand its local operations from six employees to ten but did not have the office space to add more workers? Today's businesses have a toolkit of technical solutions to set up working relationships with employees far and wide through voice, computer, video connections, and offsite work-sharing spaces. Coworkers can share files on a remote network server or on the cloud, and managers can use nontraditional methods to monitor activity and performance. Companies like General Assembly, WeWork, and Workbar are leasing access to communal spaces equipped for the business needs of remote workers. Telecommuting is therefore easier to implement than ever. But what exactly are the benefits and drawbacks of telecommuting, and what ethical issues does it raise?

### Telecommuting and Its Advantages

The term **telecommuting** emerged in the 1970s to describe the practice of working at a specific location, whether the employee's home or an alternate office, to reduce commuting time to a centrally located office space or store. "Telework" was greatly facilitated by new telecommunications technology, including the Internet, e-mail, and mobile phones. Today, telecommuting means any mode of working at a remote location (home or other space) by virtue of an electronic connection and/or telephone and encompasses a variety of employment types, from gig assignments to part-time contract work to traditional full-time employment.

The most recent Census data reveal that almost four million U.S. employees skip the commute for at least part of each week, and according to a 2012 poll, worldwide, one in five workers telecommutes frequently, with approximately 10 percent working from home every day.<sup>1</sup> [Figure 10.2](#) depicts the growth in telecommuting in the United States, China, India, France, Germany, and the United Kingdom. Clearly, employers are embracing telecommuting as a tool for flexibility, on a scale from occasional use to full-time implementation.<sup>2</sup>



Source: Hess, Ken. "Death of the Office and Rise of the Telecommuter." Consumerization: BYOD. ZD Net. June 2, 2014. (Some data from Intuit.)

**Figure 10.2** As more employers provide the opportunity for telework, fewer people are commuting to a corporate office every day. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Employees can connect to networked company computers from home and use work-enhancing tools on their laptops, tablets, and smartphones to make real-time connections by voice, text, or video with inexpensive or

free applications (or “apps”) like FaceTime and Skype. Other software solutions, like GoToMeeting or WebEx, make setting up and even recording a synchronous meeting with sound and video possible for even the smallest companies at fairly low cost. The communication and productivity tools that facilitate telecommuting can only grow in number and sophistication. Virtual reality tools like Microsoft’s Mixed Reality allow a worker in one location to communicate with the holograph of another person in real time. For example, this technology could enable a job interview with a remote candidate. Of course, the use of technology brings with it the need to ensure information security and protection against hacking, including guaranteeing the authenticity of the persons engaging via this technology.

Employers allow employees to telecommute for a variety of reasons. First, it is a powerful recruiting tool for people who want to balance their work and personal lives. It allows employees to work a more flexible schedule to care for children or older relatives while maintaining a career and earning income.<sup>3</sup> Individuals with ability challenges also prefer the flexibility that telecommuting affords them.<sup>4</sup>

Telecommuting also reduces the hours that employees spend traveling to and from the job and can help keep cars off the road. Fewer workers commuting equals less crowding on public transportation.<sup>5</sup> Fewer cars mean less air pollution as well. The average U.S. employee (who commutes 30 miles and 60 minutes per day) will save more than \$1000 on gas per year by telecommuting (along with associated costs of parking and vehicle upkeep and insurance).<sup>6</sup> Remote workers can continue to do their jobs despite weather conditions that impede travel. They are not exposed to sick coworkers’ germs and may take fewer sick days (which sometimes translates to fewer sick days company-wide). Remote employees are also seldom late for work or early to leave when their workday starts at home.

More broadly, there is a good deal of evidence suggesting that telecommuting has beneficial effects on worker productivity. For example, a call-center study reported in the *Harvard Business Review* found that telecommuting employees made 13.5 percent more calls, resigned their positions at only half the usual rate, and had much higher job satisfaction compared with employees who did not telecommute.<sup>7</sup> The Colorado Department of Transportation, in a study of telecommuting productivity for a branch that issued permits, found 48 percent faster turnaround times for issuing permits and 5 percent more calls for telecommuters.<sup>8</sup> Furthermore, studies of JD Edwards teleworkers found them to be 20 to 25 percent more productive than their office colleagues; American Express employees who worked from home were 43 percent more productive than workers in the office.<sup>9</sup> With none of the distractions of a traditional office setting, like water-cooler gossip and long lunches, and with the happier attitude, workers tend to enjoy when they have control over their work lives. Telecommuting facilitates increased efficiency and productivity and also typically results in higher retention of workers, thereby reducing recruiting and training costs for firms.

Studies have shown that a person who commutes for an hour a day experiences added stress, anxiety, social isolation, and possibly depression.<sup>10</sup> Perhaps that is why companies that implement telecommuting experience less absenteeism overall.<sup>11</sup> It may also be easier to collaborate when not sharing a limited amount of space (such as in a cubicle forest), and people may be more willing to share resources with one another when the total number of workers present at the facility is reduced. Another point is that there may be less chatting and gossip among remote workers who are not in daily contact with each other or their colleagues.

Employers may be attracted to telecommuting for other reasons. Having remote employees can reduce office-space costs.<sup>12</sup> In fact, a company can consider expanding even when there is no available real estate or capital to enlarge or improve the physical facilities. Companies that hire remote employees can also widen their pool of potential applicants.<sup>13</sup> They can choose recruits with better job skills than the local population could provide and expand their sales and marketing territory by hiring employees based in a new area.

Finally, there are many external environmental benefits of telecommuting. We have seen that a business that

reduces total office space also reduces its impact on the environment.<sup>14</sup> Remote workers would increase their individual consumption of utilities while working at home, but chances are that their home's energy consumption partially continues during the time spent at a traditional job as well ([Figure 10.3](#)).



**Figure 10.3** Telecommuting is becoming more common around the world. The phenomenon stands to benefit remote workers and also their employers. (credit photograph: Cory Zanker/Flickr, CC BY 4.0; figure attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

## The Drawbacks of Telecommuting

In 2013, Yahoo's then-chief executive officer (CEO), Marissa Mayer, ended the company's work-at-home policy, contending that the change would boost communication and collaboration by bringing people back to the office to work with their colleagues face to face.<sup>15</sup> IBM, Aetna, and Bank of America followed her lead, citing a greater need for collaborative communication to compete with smaller firms.<sup>16</sup> A backlash in the media followed this announcement, because working at home is popular among Yahoo employees. Yahoo has since shown greater flexibility in allowing some employees to once again work at home.<sup>17</sup> But recent research does reveal that employees collaborate more creatively when they meet to discuss projects face to face. This finding has important implications for firms dependent on research and development for their future growth. In fact, Steve Jobs designed the Pixar facility to increase the likelihood of conversations that would promote idea generation.<sup>18</sup>

Corporate culture is not easy to convey over distance. The remote worker might have developed certain working habits at a different company with a different corporate culture (sometimes in another country). It can be challenging to help employees adapt to the culture of a new company when they work remotely.<sup>19</sup>

It is also more difficult for employers to monitor some kinds of work-related progress when an employee is working remotely. The likelihood of miscommunication increases when everything must be transmitted electronically or virtually.<sup>20</sup> A manager cannot "manage by walking around" when the worker is remote. There are no incidental opportunities to witness a worker interacting with a client or customer.<sup>21</sup> Workers may also be more hesitant to ask for direction on a project. Some managers worry that employees will slack off if there is no one there to watch them.<sup>22</sup>

The remote worker may have qualms about privacy when his or her personal life inevitably intersects with the workday (as when a family member walks into the room or the dog barks during a conference call).<sup>23</sup> Children may be confused when it seems like their parent is home but is not available for meals or play or homework help. It may be difficult for remote workers to maintain a work-life balance when their home becomes their office (especially if their hours are flexible). Workers may have to set aside living space for a home office and spend money to buy computing equipment, a desk, and other supplies.

Furthermore, it is difficult for an on-site technology team to provide technical assistance or secure data at the level the company may require when people are working at home. Moreover, when the definition of the workplace begins to blur, who is responsible for injuries that occur on the job at home? The employer is unable to exercise the same control over safety measures that holds in a traditional workplace.<sup>24</sup>

There may also be productivity concerns. Some remote workers will rise to the challenge of motivating themselves to work diligently. In fact, studies have shown that some remote workers are more productive than their traditional counterparts.<sup>25</sup> But it is not easy to sort potential employees into workers and procrastinators without some period of trial and error, which may be costly.

Not all fields are equally suited to telecommuting. Some jobs require consistent in-person contact with clients or customers, such as counseling, physical therapy, and medicine.<sup>26</sup> Some industries need the highest computer security, such as banking and finance. Other work settings, such as law enforcement, have increased needs for building security that would make working remotely an unsafe alternative for employees.<sup>27</sup>

The biggest drawback of telecommuting for the individual employee is the bias that studies reveal in employer attitudes. Most managers, after all, attained their status in a traditional job. When some employees telecommute and others do not, those who are in the physical presence of the employer every day can more easily make an impression (good or bad) simply by interacting with their manager. There is also some indication that employees who opt for a nontraditional work arrangement may be penalized if they are perceived as lazy or less dedicated than those who maintain traditional work hours. Employers might have a stronger recollection of the work produced by the employee they see regularly than they do of the work a remote employee is submitting online. Therefore, promotions and important projects may go to employees who are more visible. The remote employee might eventually be left without equal footing in the push for increased pay and status.

## The Ethical Challenges of Telecommuting

Ethical employers must juggle the potential ethical challenges of managing remote employees, including developing trust in remote workers, encouraging trust among project team members when some are working remotely, keeping equity in mind when reviewing the performance of remote and in-office staff, and deciding which employees get to work remotely. Supervisors also must guard against abuse of the remote-work opportunity, maintain the security of the remote employee's work-related data, foster a level of collaboration that is vital to product development, and protect the remote worker's safety.<sup>28</sup> How can managers meet these challenges?

Although it is easy to consider allowing telecommuting for those who simply ask, managers should instead categorize jobs (not people) by their suitability for remote work. Best Buy recently announced it would modify its work-from-home policy for employees in its corporate office, changing it from a perquisite (or "perk") of employment to one granted by management on a case-by-case basis and mindful of the circumstances of individual workers.<sup>29</sup>

Managers should also carefully set up a framework of policies to govern at-home work and ensure fairness. For example, there could be a standard for how much time each person should spend in the office. The Massachusetts Institute of Technology created a remote pilot project in its Executive Education Program.<sup>30</sup> Employees were encouraged to work remotely two or three days each week and to be present in the office each Wednesday. After six months of the pilot program, 100 percent of the employees recommended its continuation.

## LINK TO LEARNING

Watch this [video tracing some of the history of workplaces and speculating about innovations in the future, many of which relate to telecommuting \(https://openstax.org/l/53telecommute\)](https://openstax.org/l/53telecommute) to learn more. Keep a list of the telecommuting-specific innovations and identify any ethical concerns related to them.

Managers should set clear expectations for remote workers, such as maintaining professionalism while working and accomplishing a certain volume of work or number of tasks by a certain time. Those who meet these goals should be rewarded. In the interests of fairness and equity, neither expectations nor rewards should differ from those established for in-house workers.

The ethical employer communicates trust in his or her employees when implementing telecommuting. That trust is based on respect for the employee's motivation and the recognition that the employee has needs that are important in establishing work-life balance.<sup>31</sup> Perhaps the employer's vote of confidence in the employee's ability to work well remotely is the reason that productivity tends to increase in successful telecommuting programs.<sup>32</sup> The [Figure 10.4](#) caption lists some of the best practices of successful telecommuting programs.



**Figure 10.4** Telecommuting is more likely to succeed when remote employees are provided with the right technology, are empowered by inclusion in the corporate culture, and interact with colleagues in a manner that clearly expresses their expectations, values, and trust. (credit: modification of “daily bw: hanging out with my coworkers” by Mike McCune/Flickr, CC BY 2.0)

It would be unethical to place workers without assistance in a new situation in which they can easily fail. Telecommuting workers must be trained in time-management skills so they can maintain their productivity in an environment that may have more or different distractions than a traditional workplace and may make different demands on their time. Training should also strengthen communication skills, such as responding to messages promptly, that help ensure success in a remote setting. To help guard against the risk that telecommuting employees will be unfairly considered “out of sight, out of mind,” the ethical company will adopt written expectations about timely communication in both directions. For instance, it should ensure that managers' lines of communication are as open to their remote employees as they are to those who can drop by their desk or office to chat.

Finally, many firms with successful telecommuting programs create a social network among employees. They sponsor online social occasions to help employees bond even though they are not in the same place. Workers can then find a way to have some virtual fun, despite the distance that might separate them.<sup>33</sup>

## 10.2 Workplace Campuses

### Learning Objectives

By the end of this section, you will be able to:

- Compare the workplaces of yesterday, today, and the future
- Describe the benefits and potential drawbacks of workplace campuses
- Identify ethical challenges in the development of workplace campuses

The physical workplace is changing. Most companies still inhabit traditional office spaces in which managers and employees each have an allotted space, whether an office, a cubicle, or just a desk. However, a growing number are redesigning their spaces with fewer separate offices, substituting flexible or shareable work stations built around communal space.<sup>34</sup> The idea is that such “open plan” environments allow for more collaboration and brainstorming because employees are no longer walled off from one another. Shared, multipurpose spaces open to all allow people to gather informally throughout the day. In effect, then, these changes are aimed to augment productivity.

In another trend, companies like Apple, Microsoft, Facebook, Amazon, and Alphabet (which owns Google) are developing expansive campus-like facilities that offer generous on-site amenities like recreation centers, fine dining, parks, walking and biking paths, climbing walls, free snacks, child-care facilities, basketball courts, haircuts and massages, and laundry, dry-cleaning, and car wash operations, in airy spaces often powered by renewable energy sources ([Figure 10.5](#)).<sup>35</sup> Facebook and Alphabet/Google have plans for building mega-corporate campuses that also include housing. Facebook plans to reserve 15 percent of its housing units for low-income neighbors, but, in both cases, it is anticipated that most residents of these campuses will be employees.<sup>36</sup> Presumably, workers who do not have to commute to and from work every day will be happier and more productive.





**Figure 10.5** This herb garden at the Googleplex, Google’s headquarters, is an outdoor area where workers can sit and contemplate nature. The garden is part of a farm-to-table program to teach Googlers about how their food is grown. (credit: “Googleplex” by Pamela Carls/Flickr, CC BY 2.0)

New workplace arrangements like these effectively serve as fringe benefits for employees that presumably offer the flexibility and work-life balance promised by corporate recruiters. Yet, looking from a different angle, we might consider the motivations behind these complexes to be less than altruistic, because such campuses encourage workers to stay in the office far longer than they might otherwise. Is this the case? Furthermore, if so, do they result in the same or higher levels of productivity? What ethical challenges do they present for the employer and the employee?

## Workplace Campuses and Historical Precedents

Traditional workspaces are designed to allow each person to get the maximum amount of work completed each day, spending most of the time alone in a fairly utilitarian environment with minimal distractions. The size and location of the offices indicate status (corner offices are prized), and lunchrooms or cafeterias and water coolers provide the only place for brief social encounters.

State-of-the-art workplaces today, however, incorporate technology and encourage collaboration. Ergonomic furniture is available for comfort, and laptops and tablets allow workers to move around the facility as desktop computers could not. In fact, workers in the new flexible workplace spend less than 50 percent of their time at a desk.<sup>37</sup> Moreover, as we discussed in the previous section, many enjoy the flexibility of telecommuting as needed. Furthermore, in open-plan spaces, all work positions locations are alike; status is not signaled by location or size.

### LINK TO LEARNING

Watch this [promotional video for one technology company whose employees work in a campus-like](#)

[setting \(https://openstax.org/l/53CompanyCampus\)](https://openstax.org/l/53CompanyCampus) to learn about some of the benefits.

As early as the 1960s, large companies like Bell Labs built suburban compounds for their corporate headquarters, but they were a far cry from the campus settings of Apple and Google today. Bell Labs' design, for example, was a series of laboratories and office buildings grouped together, with a functional cafeteria.

Workplace campuses are also modeled on university campuses that provide a relatively complete work and living environment for students. As noted, Facebook and Google are building apartments near their corporate campuses. Facebook's new project, named Willow Village, is near Menlo Park, California, and will include some fifteen hundred units. Employees who lease an apartment there will be eligible for a company bonus.<sup>38</sup> The future workplace campuses and mega-corporate campuses with housing bear a superficial resemblance to nineteenth- and early twentieth-century "company towns," which existed around the world.

In a company town, the stores, entertainment venues, and housing were all owned by the same company, which also employed everyone in a local factory or mine.<sup>39</sup> The remote locations of factories sometimes made it necessary for such employers to provide workers with housing and a means to acquire the necessities of life, but those who lived and worked in the company town paid for all purchases from their wages, which, of course, went straight back to the employer. The owners and builders of company towns, like George Pullman or Henry Ford, were often idealists who envisioned creating a social utopia.<sup>40</sup> But the towns and their owners could also be paternalistic and self-serving. Indeed, company towns created what is called a monopsony in the labor market, where there is only a single buyer, and the economic analysis of monopsony shows that with the lack of competition for labor, wages of workers are suppressed. That is, "a monopsonist in the labor market can leverage its market power. Because it is the only firm hiring, it can pay its workers less."<sup>41</sup>

Company towns began to disappear when cars became affordable and employees could drive to work. However, all that driving lengthened some workdays and disrupted the balance people enjoyed between working hours and personal time. Like telecommuting, corporate villages are one approach to cut down drive time. However, critics of Facebook's Willow Village are calling the property "Zucktown" and wondering whether the development will further blur the work-life balance for employees of Mark Zuckerberg's social media company.

## CASES FROM THE REAL WORLD

### Acuity's Workplace Campus

Employees at Acuity, an insurance provider in Sheboygan, Wisconsin, enjoy amenities beyond the imagining of the average U.S. worker. The company offers flexible workdays, on-site leadership training, tuition reimbursement for continuing education, and company scholarships. Its \$130 million campus also provides an on-site fitness center complete with a climbing wall, a garden, and a cafeteria serving nutritious meals. Employees are offered the services of an on-site massage therapist, and there are on-site banking and dry-cleaning services.

The campus was designed to be a showpiece at the entrance to the town of Sheboygan. In fact, it features a working Ferris wheel and a theater-in-the-round that seats two thousand, which the company makes available for community events and town hall meetings.

### Critical Thinking

- What do you think about a company that would build a multimillion-dollar workplace campus that also serves as a center for community events?
- What does the investment communicate about the company's core values and stakeholder focus?
- Should company facilities be only for employees?

## The Pursuit of Work-Life Balance

Twenty-five percent of U.S. employees in multiple industries were recently surveyed and reported feeling “super stressed” as they juggled work and home responsibilities.<sup>42</sup> Daily stress from trying to maintain work-life balance can produce health effects like reduced immunity and inadequate sleep. Stressed workers are also less productive in the workplace.

Efforts to offer employees an ever-widening array of amenities appear to be an effort by employers to create work-life balance and make their companies more desirable as places of employment. The idea is that life is simpler if food is readily available and free at work, if a doctor's office or hair salon is just down the hall, and if home is right on campus.

Some research shows that millennials believe integrating work and leisure in some combination fosters work-life balance.<sup>43</sup> They may see less need to have clear boundaries between their work world and their home life as technology pushes them to be connected in so many ways that once did not exist but now seem inescapable (e.g., an employee of a global firm that conducts business around the clock may never be truly separated from the office due to connectivity provided by mobile devices).

Have employers then crossed a line with these perks? Have they created an expectation that the employee who works on a corporate campus where all needed services are provided will, in turn, be accessible for long hours of work on a regular basis? Are the amenities really velvet handcuffs that tie employees to work? Living right next to work clearly will reduce commuting time, and via this path, it may promote work-life balance. But the expectation that long hours should be routine just because they are possible will hamper, rather than facilitate, the quest for work-life balance. Furthermore, to the extent that mega-corporate campuses do tie workers to their jobs, reduced worker mobility means that labor markets will be less able to adjust to changing conditions.

## The Ethical Challenges of Workplace Campuses

It is hard to imagine that anyone could find fault with a job that came with all the amenities of a campus-like environment. However, the all-encompassing aspect of these workplaces means a manager's job description greatly expands to include small-city management functions. As the April 2018 shooting of employees at YouTube's headquarters suggests, corporate campuses may have a greater need for security, with duties that dovetail those of the city police. Growth of the compound will challenge managers to comply with city planning and zoning regulations. How should these villages within a city contribute to the municipal services they need for the population they draw? Should the city be able to require a greater tax contribution from mega-corporate campus developers that equals the load they add to the city's fiscal responsibilities?

## CASES FROM THE REAL WORLD

### A New Slice of the Apple?

In 2011, Steve Jobs, founder of Apple, appeared before the Cupertino City Council to present his proposal for a new Apple headquarters on the outskirts of the city. The project, which was approved, is known as the “Ring.” It encompasses 2.8 million square feet and cost some \$5 billion to construct. Jobs planned the innovative facility to inspire engineers and programmers charged with creating new Apple devices and tools (Figure 10.6). Its shape is meant to allow them to collaborate while maintaining a connection to nature. Jobs (who died in 2011) also hoped the building would enable Apple to better safeguard its secrets, because it is large enough to house so many employees and data systems in one secure location. The building is sustainable due to solar panels that provide all its energy needs, and the campus includes nine thousand drought-resistant trees planted to withstand a changing climate. Parking is limited by design to encourage employees to use public transportation and share rides.<sup>44</sup>



**Figure 10.6** This likeness of the Apple Ring provides a sense of the scale of the building, which boasts a four-story cafeteria. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Critics, however, say the Ring’s outer-city location and inward-looking shape, giving many in it a view of only the other side of the building, discourage employees from being a part of Cupertino’s life.<sup>45</sup> Others argue that remodeling an existing building in the heart of the city would have done more for Cupertino’s local economy. Ninety percent of Ring workers are not local; they commute to their jobs, and so they might not have made an impact on the city even if Apple had made a different decision. Shareholders also objected to the facility because of its cost, which may have reduced Apple’s ability to issue more corporate dividends.<sup>46</sup> However, Jobs’ approach to the Apple campus is unquestionably part of a growing trend to create company compounds.

### Critical Thinking

- Should a company build in the inner city to integrate its workforce with the community and reduce the traffic consequences of adding its workforce to the local population?

- Is it better for a company to support local restaurants or build its own restaurant facilities?
- Is it ethical for a company to spend so much on building a corporate facility instead of increasing shareholder dividends?
- Should there be zoning laws regarding corporate campuses?

## 10.3

## Alternatives to Traditional Patterns of Work

### Learning Objectives

By the end of this section, you will be able to:

- Explain the benefits, drawbacks, and ethical issues of job sharing and flextime
- Describe the business models that have emerged in the new millennium
- Discuss the ethical challenges businesses face in the gig economy

New ideas about the way we work and for how long, as well as the business models we use, are challenging many traditional business strategies. Job sharing and flexible hours (or flextime), the access or sharing economy, and the rise of gig workers all force us to evaluate how they affect management, employees, and customers alike. Although new business models provide increased autonomy and flexibility, they have also led to the rise of what some call the new *precariat*.<sup>47</sup> The precariat, for “precarious proletariat,” is a new social class of people whose work offers little predictability or security. The existence of such a class raises ethical dilemmas for business managers, who may be tempted to substitute gig workers, to whom benefits like health insurance are ordinarily not provided, for regular employees entitled to costly benefits.<sup>48</sup>

## Job Sharing and Flextime

In **job sharing**, two or more employees perform the work of a full-time position, each taking part of the total workload for the job. For example, one job-sharing employee might work three eight-hour shifts a week and the other would take two such shifts at the same job. In some ways, job sharing is simply another name for part-time work. The two people need not work equal numbers of hours, but they perform a single job, doing the same tasks and shouldering the same responsibilities. Unlike nurses, who work shifts but each has their own job, job sharers work one job between them.

Most people in the United States seek a full-time job of thirty-five hours a week or more, usually because they want the income and benefits (such as health insurance) that often come with such a job. But some are willing to forego full-time work because they need or want to care for children or an elderly or ailing family member, pursue their education, run a business on the side, or volunteer. Allowing two people to share a job is an option that can lead to enhanced work-life balance for both individuals. A job-sharing parent can work weekends only, for example, saving on daycare costs during the week.

Many job sharers report less stress and an increased ability to produce high-quality work. Studies have shown that many accomplish more in a shorter workweek due to higher morale.<sup>49</sup> Typically there is less absenteeism when the team can plan around the appointments and vacations of each individual.<sup>50</sup> Job sharing may also reduce the absenteeism of employees with children by providing increased flexibility to cover family emergencies or obligations. There is even a synergistic effect when two people bring their insights to problems that one person would usually face alone.<sup>51</sup>



Employers find that hiring two individuals to fill one job also opens the door to recruiting new talent. Job sharing might allow an employer to retain a knowledgeable associate who is ready to cut back work hours. Furthermore, an employee who is leaving or retiring can share the job for a time to train a replacement.

Many job sharers apply for jobs as a team. Those who have successfully shared a job advocate for setting clear performance expectations and progress checkpoints. Two employees might share an e-mail account and brief each other daily on their work.<sup>52</sup> Specific examples include translators of legal documents at an international law firm—one translator takes the morning shift; the other, the afternoon. Or technical writers at an engineering firm—one might work Monday through Wednesday noon; the other, Wednesday afternoon through Friday. This scenario works when common documents are being written or translated. If the job sharers are equally competent, work can be passed off to one another at specific intervals.

Other aspects of job sharing actually benefit employers, but not necessarily employees. Replacing a full-time position with two or more part-time employees may allow an employer to avoid paying for the benefits to which a full-time employee would be entitled, such as health insurance mandated by the Affordable Care Act, and sometimes optional benefits as well. The number of involuntary part-time workers varies over the course of the business cycle: In 2009, as a consequence of the Great Recession, U.S. Department of Labor statistics put the number of involuntary part-time workers at more than nine million; in mid-2018, that number was just below five million.<sup>53</sup>

There are some purely business drawbacks to job sharing. First, the practice does not work in all fields. Second, some work can suffer because of the extra time, and sometimes expense, necessary for coordination between job-sharing partners, especially if neither is formally in charge.<sup>54</sup> Job-sharing arrangements also presuppose that the two people are going to work together collaboratively, but competitive instincts could lead one partner to withhold information or even sabotage the project. Another drawback is the “two Mondays effect”—the potential productivity loss due to the time it takes each partner to get up to speed on the first day back.<sup>55</sup> Finally, some managers do not want the added responsibility of managing two people instead of one.

## LINK TO LEARNING

Job sharing has many advantages for employees and employers alike. Watch this [video about some of the benefits of job sharing \(https://openstax.org/l/53JobShare\)](https://openstax.org/l/53JobShare) to learn more.

The ethical question raised by job sharing boils down to whether the employer is hiring job sharers to improve productivity and meet employee preferences, or hiring part-time workers to improve profitability at the employees' expense. The ethical employer hires employees to best serve the needs of the customer and the company while respecting the needs of each employee. The first step in ethically managing a job-sharing partnership is to pick the right job to share. Data-entry jobs and those that require less supervision and coordination between partners are more easily managed. Then, with both employees present, the manager should spend some time creating a shared written agreement about procedures to follow and responsibilities to accept.<sup>56</sup> Follow-up is important to be sure job sharers are working cooperatively and meeting their goals.



## WHAT WOULD YOU DO?

### Staffing Trade-offs

You are a department head in a mid-sized clothing manufacturing firm in a time of high unemployment. Your manager is always worrying about the bottom line and cash flow. She has asked you, as marketing employees retire or leave, to split a number of their positions into part-time jobs that do not require the company to offer benefits like health insurance. Your boss says many job applicants want this kind of employment. You are not so sure. You are reluctant to replace jobs offering good benefits with jobs that offer none, and you are seeking powerful arguments with which to persuade your boss to abandon the plan.

### Critical Thinking

- What points support the job-sharing plan? How would it benefit the company? The employees?
- What negative effects might it have on the company and the employees?
- Is job sharing better for some positions in a department than for others?
- Do you have any concerns about potential employment discrimination if this plan is implemented? If so, what would they be?
- Is creating job-sharing positions the right thing for the company/customers/employees to do in this situation?

The practice of offering flexible hours, or **flextime**, lets employees choose their own start and finish time each day, arriving and leaving earlier or later than the normal 9-to-5 workday. Parents benefit particularly because they are better able to schedule their work around their children's lives. Women are the predominant users of this family-friendly work policy.<sup>57</sup>

Flextime was a starting place for creative new approaches to work. Teams now trade shifts to accommodate members' needs for time off. Some companies allow a compressed work week that caters to the efficient employee who can get a week's work done in less than forty hours. In some professions, such as accounting, employees might be allowed a reduced schedule during the off season.<sup>58</sup>

All these variations allow employers to recruit a more diverse workforce. No longer is it necessary that someone be free of weekday responsibilities to have full-time work and gainful employment. Flextime also benefits clients and customers because companies can extend their hours of operation when workers are willing to cover flexible shifts.<sup>59</sup>

Ethical employers base the decision to allow flextime on a clear and well-written policy that relies on objective job-related criteria. Without an objective policy, employees could claim discrimination if all were not eligible.<sup>60</sup> Employers should also be aware of the law; in some states, daily work hours are set by law, and allowing some employees to work more than eight hours a day might require payment of overtime.

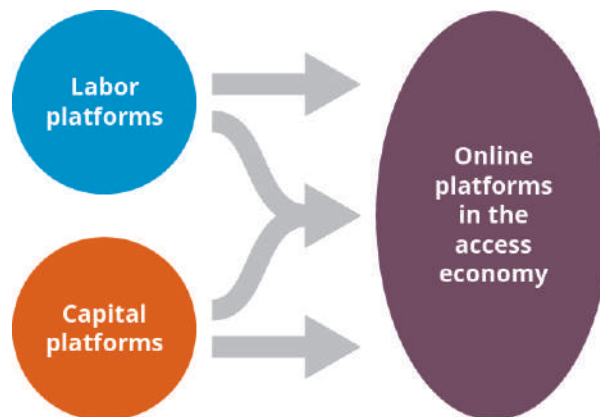
Some studies have found a troubling bias against employees who request a later start to the workday.<sup>61</sup> Managers may incorrectly regard people who prioritize an early start as more desirable employees and attribute a request for a late start to lack of motivation. Managers need greater supervisory skills to ensure flextime workers are using their time productively and to effectively manage teams in which some are working flexible hours and others are not.

## The Access Economy and Online Platforms

The **access economy** is essentially a resource circulation system in which consumers participate on both sides of a transaction, as both providers and obtainers of resources (the transaction is usually facilitated by a third party acting as a go-between). The model, sometimes called peer-to-peer (or P2P), is particularly popular when the asset is expensive to obtain and is not fully consumed by the user (such as a house or condo). In the traditional capitalist economic model, goods are bought and sold by businesses and individuals, but in the access or sharing economy, goods and services are traded on the basis of access rather than ownership.

In this business model, owners make money from underused assets. The global online hospitality marketplace is an example. Airbnb says consumer-hosts in San Francisco who rent out their homes do so for an average of about sixty nights a year, making almost \$10,000 from such rentals. Car owners using the service RelayRides make an average of \$250 a month from allowing others to use their cars. This helps consumers supplement their incomes or even finance the purchase of the assets they share. Many of the original sharing-economy businesses are now household names, including Airbnb, Uber, and Lyft; thousands more are part of the P2P decentralized markets.

Most sharing or collaborative economy business models use the Internet to facilitate transactions, so it might be more accurate to refer to them as part of the *online platform economy*. However, whereas some facilitate the renting of assets, such as real estate (think Airbnb), others are essentially selling labor (think Task Rabbit), and some bridge the two categories by offering a combination (think Lyft) (see [Figure 10.7](#)). The new business models all have something in common, however: a decentralized and democratized marketplace featuring broad-scale participation, with consumers serving multiple roles.



**Figure 10.7** Online platforms have enabled a variety of access-economy models, including those driven by labor or capital and some by both. Examples include Airbnb, Uber, and Task Rabbit, just to name a few. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Online and digital business models allow almost anyone to start a business from scratch in what some call the democratization of free enterprise. An economy so open to new players is a significant step toward increased buyer access to goods and services at all levels, even as it raises legitimate questions about how to ensure trust between the transacting parties.

One issue facing the access economy is regulation. For example, should private individuals who rent out rooms be regulated like a Marriott hotel or perhaps a bed-and-breakfast operator, or simply be considered consumers allowing a guest to stay in their house? They are not only subject to income taxes on the money they earn but they are increasingly likely to be charged hotel or occupancy taxes. Some cities have passed ordinances to limit real estate rentals to minimum stays of a week or a month; shorter stays will be considered

hotel rentals subject to regulations such as health and safety code rules. In the ride-sharing segment, some cities have said drivers must undergo the same scrutiny as taxi or limousine drivers, such as fingerprinting, commercial licensing, training, and background checks.

The access economy presents an ethical and regulatory challenge for all levels of government—balancing the need to have at least some rules to protect consumers with the desire to allow competition from new business models. Big businesses are lobbying legislative bodies to apply the same regulation to the access economy as to the traditional economy in an effort to reduce or eliminate the threat of competition. This, in turn, raises an ethical question for society as a whole. Traditional means of raising capital, whether through initial public offerings (IPOs) or venture capital, are often dominated by big players. Should access to capital remain limited to those who have influence, or should the government pursue policies aimed at facilitating access to capital by small businesses? In one sign of increasing acceptance of the access economy, traditional businesses are starting to invest in smaller, more nimble, platforms, as the following feature on Oasis Collections demonstrates.

## CASES FROM THE REAL WORLD

### Oasis Collections

Oasis Collections is a real estate rental marketplace or platform similar to Airbnb, with a few key differences. Founded in 2009, the company fills a market niche by matching house and condo owners with travelers who want something more personal than a hotel but more upscale than a room in someone's house.

Oasis sought venture capital funding but was turned down multiple times. An IPO was not feasible because the company was too small. This financing quandary demonstrates the limited access to capital that often forms a barrier for entrepreneurial startups to overcome. Oasis' founders turned to sources often used by entrepreneurs, including a mix of seed funding from founders, friends, and family, and angel funding from a private investor. The company operated on a relatively tight budget for several years.

In 2017, Hyatt Hotels decided to invest \$20 million in Oasis, after it had proven it had a niche in the access economy. Steve Haggerty, Hyatt's global head of capital strategy, said the investment "reflects Hyatt's established strategy to super serve the high-end traveler by offering new experiences beyond traditional hotel stays. Travelers who book Oasis Collections homes are . . . leisure and often business travelers who seek more space for a longer time, but also want the peace of mind, personalized service and amenities they expect when staying with Hyatt."<sup>62</sup> Hyatt apparently now sees the access economic model as a force it cannot afford to ignore and has chosen to embrace and fund it. Oasis has the capital to expand its footprint, so CEO Parker Stanberry spends most of his time traveling to sign up new properties and new customers. "We definitely have our work cut out for us," he says. "We've got to hustle hard every day."<sup>63</sup>

### Critical Thinking

- Can a sixty-year-old traditional hospitality corporation and a new access-economy startup thrive side by side? Or will the experiment crash and burn?
- How likely is it that a big business in a similar type of industry would buy up the related access-economy business or use their market power to crush them instead of integrating the new model as

Hyatt did? Defend your answer.

As the Oasis case shows, getting access to funding is often a challenge for entrepreneurs. An IPO is essentially a method of funding a startup by selling its stock to the public at large, a process heavily regulated by the government. The Securities and Exchange Commission (SEC) oversees the applicable federal laws, which require the filing of a registration statement and a full disclosure of financial information, along with months of effort by accountants, attorneys, underwriters, and company executives. The cost and complexity of this process usually outweighs the benefit for entrepreneurs who want to raise a modest amount of capital (\$10 million or less).

However, as a matter of business ethics, businesses of all sizes should be able to participate fully in the U.S. economy and not be shut out by the “gatekeepers of capital”—the investment banking community. Thus, in 2012, Congress enacted new legislation called the JOBS (Jumpstart Our Business Startups) Act, which amended U.S. securities laws to enable small businesses to use a variation on a technique known as crowdfunding. Crowdfunding is already in use as a way to give or lend money to consumers and businesses through web portals such as GoFundMe. But those sites do not offer SEC-compliant sales of securities in a business, as the JOBS Act now permits emerging growth companies (EGCs) seeking capital to do. This new type of funding should help level the playing field for EGCs; many view it as a way of democratizing access to capital.<sup>64</sup> One entrepreneurial startup that used this new method successfully is Betabrand, a San Francisco-based retail clothing company that doubles as a crowdfunding platform. The company lets users of its platform crowdsource clothing concepts and develop prototypes into actual products.

## LINK TO LEARNING

This [website connects to one of several active business-oriented crowdfunding websites \(https://openstax.org/l/53crowdfunding\)](https://openstax.org/l/53crowdfunding) to offer emerging growth companies or small business several avenues of funding, including equity, convertible notes, and debt. The primary advantage is the opportunity to raise equity capital without big fees and red tape.

## The Gig Economy

Opportunities for limited-term employment, sometimes referred to as “gigs,” have existed for decades in the music and entertainment industry; they have even been likened to the widespread small-scale self-employment typical of the pre-union and pre-Industrial eras.<sup>65</sup> What is new about gig work today is that it is often made possible by technology, which frees workers from the need to travel to the employer’s workplace and allows them to work multiple jobs at once. This offers workers, and perhaps even managers, a new set of advantages and disadvantages in the employment equation.

The **gig economy** is an environment in which individuals and businesses contract with independent workers for short-term assignments, engagements, or projects, offering few or no benefits beyond compensation. A freelancer or contractor is a self-employed worker who may work with more than one client but who usually has a contract that covers the details of the job, including compensation. The terms freelancer and contractor are generally used interchangeably. However, if there is a distinction, it is that a freelancer is almost always

self-employed and works for multiple companies, whereas a contractor may or may not be self-employed and may work for only one company at a time ([Figure 10.8](#)). Some may be happily committed to their independent status; others are involuntarily self-employed while they search for more permanent or full-time positions. Gigs might be full- or part-time; they might be limited to a specific task or a specific time; and they may serve as the worker's sole employment or as a "moonlighting" job. Regardless of the terminology, the trend toward a gig economy has begun.

Employment Relationships	
Employees	Non-employees (Contractors, Freelancers, Gig workers)
<ul style="list-style-type: none"> <li>• Full-time</li> <li>• Single employer</li> <li>• Benefits</li> <li>• Employment taxes are split between employee and employer</li> </ul>	<ul style="list-style-type: none"> <li>• Part-time</li> <li>• Multiple employers (clients)</li> <li>• No benefits</li> <li>• Employment taxes must be paid entirely by employee</li> </ul>

**Figure 10.8** Different models of work include widely varying terms and conditions, but the two most basic divisions are listed. Of course, someone might also be an employee who works part-time and may or may not receive benefits, or a contractor might have a standing contract with a client that provides some benefits, although the contractor is not considered an employee. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

A recent study by Intuit predicted that by 2020, a surprisingly large 40 percent of U.S. workers would be independent contractors, and according to the Freelancers Union, more than 55 million adults in the United States (that is, 35 percent of the U.S. workforce) already work as independent contractors and/or moonlighters.<sup>66</sup> The nature of freelance work leaves some workers searching for the qualities of traditional full-time work, and the Freelancers Union has attempted to provide them by giving its more than 375,000 members a voice through policy advocacy and access to some group benefits.<sup>67</sup>

Many people value the flexibility of freelance work hours. They work off premises (frequently at home), make their own schedules, and juggle assignments as needed. However, benefits such as health care and retirement plans are usually unavailable (unless an employment agency sponsors them for those it places in temporary work). Freelancers most often must establish their own retirement accounts and obtain their own health insurance through an employed spouse or partner or in a health care insurance exchange. Robert B. Reich, the former Secretary of Labor and professor at the University of California, Berkeley, says, "This on-demand economy means a work life that is unpredictable, doesn't pay very well, and is terribly insecure."<sup>68</sup>

Unlike employees on the payroll, gig workers must also pay both the employee's and the employer's halves of the federal payroll tax (referred to as FICA [Federal Contributions Insurance Act], which funds Social Security and Medicare). This combined tax currently totals 15.3 percent of a freelancer's earnings. Payroll taxes overall bring in about 24 percent of combined federal, state, and local government revenue,<sup>69</sup> making them the second-largest source of government revenue in the United States after individual federal income taxes. Here is one of the ethical issues employers face: Are they dodging their fair share of taxes and failing to offer benefits by forcing people who could be their employees into contract work instead?

## CASES FROM THE REAL WORLD

### Gig Work

Have you ever been a gig worker? A recent study found that 37 percent of U.S. workers participate in the gig economy, and government and other estimates say 40 percent will be working outside traditional full-time jobs by 2020. Clearly the gig economy is not a fad. The issue is often whether it benefits only the company or also the worker. Do people actually like being gig workers, or has the economy forced them into it, sometimes by taking second and third jobs?

A national survey by the Freelancers Union found that two in three of the 55 million U.S. workers who freelanced in 2016 did so because they wanted to, not because they were forced to; the other one-third did it out of necessity.<sup>70</sup> Although motivations for gig work may vary, it is clear that employers are benefitting. Of course, part-time contract workers are not new. What is new is the way gig work has spread to many white-collar professions. Here are two examples.

Joseph creates websites for a marketing company and a digital content studio. He also creates and edits motion graphics. "It's been a fun ride, tiring but fun," he says. "Finding time is always the struggle. I'm working on a freelance project every weekend." Joseph thinks gig work has helped him improve his graphic skills faster than he might have done in a traditional job. "I get to move around to different companies, and if one thing falls out, I still have other things I can fall back on—and it keeps me sharp."

Nicole, a mother of three, is a full-time clerk at a law firm, but she decided she needed extra money and signed up with a work-at-home call center. Her husband has joined too. Nicole says her gig job is one she could continue when she retires, and she likes that possibility.<sup>71</sup>

"This is the future of work," says Diane Mulcahy, a private equities investor whose clients often benefit financially from the use of gig workers. "The full-time employee is getting to be the worker of last resort."<sup>72</sup>

### Critical Thinking

- Aside from the lack of benefits, what are the potentially negative effects for society of the gig economy?
- What happens to the concept of loyalty between worker and employer if we move to a mostly gig economy? Will that result be negative or positive? For whom, and why?

Microsoft was one of the first companies to save huge amounts of money by hiring contract workers, avoiding paying benefits and payroll taxes and escaping a wide variety of employment and labor laws. However, the company found itself the object of legal action by both the Internal Revenue Service (IRS) and its contract workers on the grounds that a large portion of its contract workforce should have been classified as employees instead.

Microsoft ended up conceding the IRS position that the workers were de facto employees. It issued W-2s (earnings statements) for the workers' past two years and paid its share of payroll taxes. It hired some of the workers as well, but others sued for fringe benefits they had been denied as freelancers. After lengthy litigation and appeals, in 2000, Microsoft agreed to pay thousands of plaintiffs a total of \$97 million, the value of stock options they would have received if it had employed them. It was the largest settlement ever received by a group of temporary employees. Today, Microsoft has more 110,000 employees, and about 75 percent are



temporary or contract workers. However, Microsoft says it now requires staffing companies to give temporary and gig workers it hires fringe benefits.<sup>73</sup>

A particularly hazy work relationship exists between employers and interns. Many business or other professional-track students seek—indeed, are encouraged to find—internships while still in school. Sometimes these positions are paid, sometimes not; some carry academic credit and some do not. The tasks interns perform, and therefore the quality of the professional experiences they gain, can vary widely. However, many interns clearly function as a source of unpaid labor. Ethical boundaries are often crossed, even if students are willing to undertake these positions. Although state labor laws governing internships vary, responsible companies will insist that their interns are paid for their services or receive academic credit, or both.

#### 10.4

## Robotics, Artificial Intelligence, and the Workplace of the Future

### Learning Objectives

By the end of this section, you will be able to:

- Discuss the application of robotics and the workplace changes it will bring
- Identify artificial intelligence applications in the workplace
- Explain the ethical challenges presented by the use of artificial intelligence

As we have seen earlier in this chapter, general advances in computer technology have already enabled significant changes in the workplace. In this module, we will look at how future workforce demographics may be affected by existing and emerging technologies. The combination of automation and robotics has already changed not only the workplace but everyday life as well. It also comes with a host of ethical and legal issues, not least being where humans will fit in the workplace of tomorrow. Managers of the future may ask, “Does my company or society benefit from having a human do a job rather than a robot, or is it all about efficiency and cost?”

## Robotics and Automation in the Workplace

Advances in the field of **robotics**—a combination of computer science, mechanical and electronics engineering, and science—have meant that machines or related forms of automation now do the work of humans in a wide variety of settings, such as medicine, where robots perform surgeries previously done by the surgeon’s hand. Robots have made it easier and cheaper for employers to get work done. The downside, however, is that some reasonably well-paying jobs that provided middle-class employment for humans have become the province of machines.

A McKinsey Global Institute study of eight hundred occupations in nearly fifty countries showed that more than 800 million jobs, or 20 percent of the global workforce, could be lost to robotics by the year 2030.<sup>74</sup> The effects could be even more pronounced in wealthy industrialized nations, such as the United States and Germany, where researchers expect that up to one-third of the workforce will be affected. By 2030, the report estimates that 39 million to 73 million jobs may be eliminated in the United States. Given that the level of employment in the United States in mid-2018 is approaching 150 million workers, this potential loss of jobs represents roughly one-quarter to one-half of total current employment (but a smaller share of employment in 2030 because of future population and employment growth).

The big question, then, is what will happen to all these displaced workers. The McKinsey report estimates that about twenty million of them will be able to transfer easily to other industries for employment. But this still

leaves between twenty million and more than fifty million displaced workers who will need new employment. Occupational retraining is likely to be a path taken by some, but older workers, as well as geographically immobile workers, are unlikely to opt for such training and may endure job loss for protracted periods.

In developing countries, the report predicts that the number of jobs requiring less education will shrink. Furthermore, robotics will have less impact in poorer countries because these nations' workers are already paid so little that employers will save less on labor costs by automating. According to the report, for example, by the same date of 2030, India is expected to lose only about 9 percent of its jobs to emerging technology.

Which occupations will be most heavily affected? Not surprisingly, the McKinsey report concludes that machine operators, factory workers, and food workers will be hit hardest, because robots can do their jobs more precisely and efficiently. "It's cheaper to buy a \$35,000 robotic arm than it is to hire an employee who's inefficiently making \$15 an hour bagging French fries," said a former McDonald's CEO in another article about the consequences of robots in the labor market.<sup>75</sup> He estimated that automation has already cut the number of people working in a McDonald's by half since the 1960s and that this trend will continue. Other hard-hit jobs will include mortgage brokers, paralegals, accountants, some office staff, cashiers, toll booth operators, and car and truck drivers. The Bureau of Labor Statistics (BLS) estimates that eighty thousand fast-food jobs will disappear by 2024. As growing numbers of retail stores like Walmart, CVS, and McDonald's provide automated self-checkout options, it has been estimated that 7.5 million retail jobs are at risk over the course of the next decade. Furthermore, it has been estimated that as self-driving cars and trucks replace automobile and truck drivers, five million jobs will be lost in the early 2020s.

Jobs requiring human interaction are typically at low risk for being replaced by automation. These include nurses and most physicians, lawyers, teachers, and bartenders, as well as social workers (estimated by the BLS to grow by 19 percent by 2024), hairstylists and cosmetologists, youth sports coaches, and songwriters. McKinsey also anticipates that specialized lower-wage jobs like gardening, plumbing, and care work will be less affected by automation.

The challenge to the economy, then, will be how to address the prospect of substantial job loss; about twenty million to fifty million people will not be able to easily find new jobs. The McKinsey report notes that new technology, as in the past, will generate new types of jobs. But this is unlikely to help more than a small fraction of those confronting unemployment. So the United States will likely face some combination of rapidly rising unemployment, an urgent need to retrain twenty million or more workers, and recourse to policies whereby the government serves as an employer of last resort.

## ETHICS ACROSS TIME AND CULTURES

### Advances in Robotics in Japan

Japan has long maintained its position as the world's top exporter of robots, selling nearly 50 percent of the global market share in terms of both units and dollar value. At first, Japan's robots were found mainly in factories making automobiles and electronic equipment, performing simple jobs such as assembling parts. Now Japan is poised to take the lead by putting robots in diverse areas including aeronautics, medicine, disaster mitigation, and search and rescue, performing jobs that human either cannot or, for safety reasons (such as defusing a bomb), should not do. Leading universities such as the University of Tokyo offer advanced programs to teach students not only how to create robots but also how to

understand the way robot technology is transforming Japanese society. Universities, research institutions, corporations, and government entities are collaborating to implement the country's next generation of advanced artificial intelligence robot technology, because Japan truly sees the rise of robotics as the "Fourth Industrial Revolution."

New uses of robots include hazardous cleanup in the wake of the 2011 earthquake and tsunami disaster that destroyed the Fukushima Daiichi nuclear power plant. After those events, Japan accelerated its development and application of disaster-response robots to go into radioactive areas and handle remediation.

In the laboratory at the University of Tokyo School of Engineering, advances are also being made in technology that mimics the capabilities of the human eye. One application allows scientists a clear field of vision in extreme weather conditions that are otherwise difficult or impossible for humans to study.

Japanese researchers are also developing a surgical robotic system with a three-dimensional endoscope to conduct high-risk surgery in remote mountainous regions with no specialized doctors. This system is in use in operating rooms in the United States as well, but Japan is taking it a step further by using it in *teletherapy*, where the patient is hundreds of miles away from the doctor actually performing the surgery. In Japan's manufacturing culture, robots are viewed not as threats but as solutions to many of the nation's most critical problems. Indeed, with Japan's below-replacement fertility since the mid-1970s, Japan's work force has been aging quite rapidly; in fact, beginning in the period from 2010 to 2015, the Japanese population started shrinking. Clearly, robots are potentially quite important as a means to offset prospective adverse consequences of a diminishing labor force.

### Critical Thinking

- Does using robots cause a loss of jobs, a shifting of jobs, or both? How should society respond?
- How might the use of robots add to the increasing inequality in the U.S. economy?
- Do companies have an ethical responsibility to their workers to training or other support to workers displaced by automation?

## Artificial Intelligence

Although some robots are remotely controlled by a human operator or a computer program written by a human, robots can also learn to work without human intervention, and often faster, more efficiently, and more cheaply than humans can. The branch of science that uses computer algorithms to replicate human intelligent behavior by machines with minimal human intervention is called **artificial intelligence (AI)**. Related professions in which the implementation of AI might have particular impact are banking, financial advising, and the sales of securities and managing of stock portfolios.

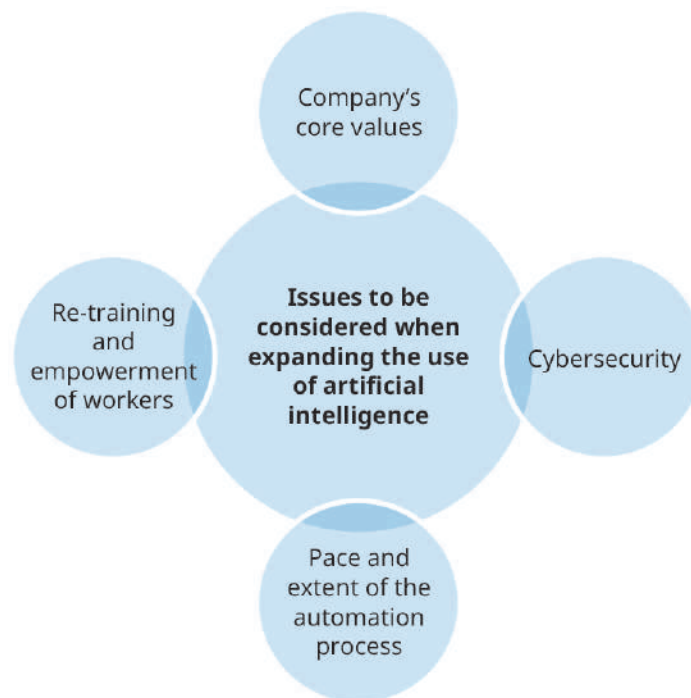
According to global consulting giant Accenture, AI is "a collection of advanced technologies that allows machines to sense, comprehend, act and learn." Accenture contends that AI will be the next great advance in the workplace: "It is set to transform business in ways we have not seen since the Industrial Revolution; fundamentally reinventing how businesses run, compete and thrive. When implemented holistically, these technologies help improve productivity and lower costs, unlocking more creative jobs and creating new growth opportunities."<sup>76</sup> Accenture looked at twelve of the world's most developed countries, which account for more than half of world economic output, to assess the impact of AI in sixteen specific industries. According to its report, AI has the potential to significantly increase corporate profitability, double rates of

economic growth by 2035, increase labor productivity by as much as 40 percent, and boost gross value added by \$14 trillion by 2035, based on an almost 40 percent increase in rates of return.<sup>77</sup> Even news articles have begun to be written by robots.<sup>78</sup>

## LINK TO LEARNING

Read this [article about AI and its applications \(https://openstax.org/l/53AI\)](https://openstax.org/l/53AI) and watch this [video about how automation and AI are changing the accounting profession \(https://openstax.org/l/53accountingAI\)](https://openstax.org/l/53accountingAI) to learn more. Also, read this [article about how some startups are creating new AI-related technology and products to automate accounting systems \(https://openstax.org/l/53startupAI\)](https://openstax.org/l/53startupAI) to learn more.

A report by KPMG, another global consulting and accounting firm, indicates that almost 50 percent of the activities people perform in the workplace today could be automated, most often by using AI and automation technology that already exist. The ethical question facing the business community, and all of us on a broader level, is about the type of society in which we all want to live and the role automation will play in it. The answer is not simply about efficiency; a company should consider many variables as it moves toward increased automation ([Figure 10.9](#)).



**Figure 10.9** Managers should balance multiple variables as the workplace moves toward increased use of artificial intelligence, automation, and robotics. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

For example, as AI programs become better able to interact with humans, especially online, should a company be required to inform its customers if and when they are dealing with any form of AI and not a person? If people cannot tell when they are communicating with an AI program and not a human being, has an AI-

controlled computer or robot reached a form personhood? Why or why not? Although traditional business ethics can provide us with a starting place to answer such questions, we will also need a philosophical approach, because we also need to decide whether it is necessary to have consciousness to be considered a person. This issue is further muddled when a human employee largely is tapping AI to serve customers or clients. Should this combination of human and AI assistance be made patently clear?

Another issue in AI and all forms of automation is liability. According to Reuters News, “lawmakers in Europe have agreed on the need for [European Union]-wide legislation that would regulate robots and their use, including an ethical framework for their development and deployment, as well as the establishment of liability for the actions of robots, including self-driving cars.”<sup>79</sup> The legal and ethical questions in assigning liability for decisions made by robots and AI are not only fascinating to debate but also an important legal matter society must resolve. The answers will one day directly affect the day-to-day lives of billions of people.



## Key Terms

**access economy** a nontraditional business model in which consumers participate on both sides of a transaction, sometimes facilitated by a third party

**artificial intelligence (AI)** the branch of science that uses computer algorithms to replicate human intelligent behavior by machines with minimal human intervention

**flextime** a work schedule in which employees can select their own start and finish time

**gig economy** an environment in which individuals and businesses contract with independent workers for the completion of short-term assignments, engagements, or projects, offering few or no benefits beyond compensation

**job sharing** the use of two or more employees to perform the work of one full-time position

**robotics** a field of research that includes computer science, mechanical and electronics engineering, and science process with the objective to produce robots, or related forms of automation, to replicate human tasks

**telecommuting** working from a remote location (home or other space) by means of electronic connections



## Summary

### 10.1 More Telecommuting or Less?

Remote workers save themselves the time and cost of a commute and are better able to balance work and home life. Companies often benefit from the higher productivity and lower turnover of telecommuting employees, and they can also provide a social benefit by permitting employees to avoid commuting, reducing traffic congestion and pollution. Some challenges of telecommuting for the manager are maintaining the privacy of the firm's data, transmitting corporate culture, defining performance objectives, and encouraging collaboration. Employees have the challenge of remaining focused on work when they are working elsewhere. Ethical companies support their remote workers by developing and encouraging trust and guarding against abuse. They also set clear and equitable expectations and rewards to ensure fairness and keep open the lines of communication.

### 10.2 Workplace Campuses

Traditional office buildings with separate workspaces for each worker are giving way to multifunctional worksites where employees are encouraged to actively collaborate. Some companies have expanded the workplace to include restaurants, recreation facilities, and convenient amenities to attract and retain employees. Other companies are building villages around their campuses to assist employees seeking to balance work and home life. These all-encompassing work environments have some potential downsides for employees, however, including a risk of tethering them to their workplaces. Their effects on local communities are being questioned as well.

### 10.3 Alternatives to Traditional Patterns of Work

When undertaken with equity and fairness, job sharing and flextime can create flexibility for workers who need or want to limit their hours. These practices allow employers to recruit more diverse employees, help them meet employees' need for work-life balance, and, in the case of job sharing, bring more than one person's perspective to problem solving. However, employers must clearly spell out expectations and procedures for each employee to ensure success.



Given flexible hours and job-sharing arrangements, the traditional employment-based U.S. economy appears to be in transition toward new business models that offer many opportunities but also serious challenges. Ethical issues in the access economy include the responsibilities of each of the parties in a sharing transaction and the character of any regulation, including taxes, that may be passed. In the gig economy, they include workers' insecure positions and lack of benefits, employers' responsibility for paying their fair share of social insurance (payroll) taxes, and the fair treatment of interns.

#### 10.4 Robotics, Artificial Intelligence, and the Workplace of the Future

Initially, robots and AI inspire both intrigue and fear in most of us. Fear of losing jobs is a reality, but so too is intrigue about what the future holds. A key for companies is to help workers retrain to become part of that future.



### Assessment Questions

1. Which of the following is not a prospective benefit to the firm of implementing a telecommuting program?
  - A. higher productivity of telecommuting workers
  - B. greater connectivity and collaboration among employees
  - C. lower operating costs
  - D. more satisfied workers
2. A successful telecommuting program would include which of the following?
  - A. a written policy that spells out expectations
  - B. an oral policy the manager can change at will
  - C. subjective criteria for each individual worker
  - D. preference for some people to telecommute over others
3. True or false? Telecommuting presents some difficulties for on-site technology departments providing security and technical assistance.
4. True or false? Some telecommuters may be penalized by a perception that they are lazy.
5. How can an employer develop trust in a telecommuting employee?
6. In what ways does telecommuting help companies recruit and retain employees?
7. When considering the issue of work-life balance, which of the following points does not apply?
  - A. Each employee probably assesses this differently.
  - B. Managers and workers as cohorts often have different perspectives on it.
  - C. Workers with families at home should be entitled to a "better" balance.
  - D. All employees have a right to pursue this.
8. Which of the following is not a potential downside of a corporate campus?
  - A. Impaired productivity
  - B. Reduced ability of labor markets to adjust to changing conditions
  - C. Adverse impact on local businesses
  - D. Increased fiscal burden on local government
9. True or false? The design of corporate campuses is meant to enhance opportunities for employees to collaborate.

- 10.** Why do some companies provide free or inexpensive meals for their employees? Are they behaving ethically by doing so?
- 11.** If you were designing an office building for a mid-size advertising firm, what ideas could you incorporate from this section to enhance collaboration?
- 12.** Some employers allow workers a compressed work week as long as \_\_\_\_\_.  
A. the work can be put off until the next week  
B. the workplace is a store  
C. it is a week in which a holiday falls on Monday  
D. the employee can completely finish the work in a shorter time
- 13.** The primary reason small-business entrepreneurs might want to hire mostly contract labor is that \_\_\_\_\_.  
A. the cost of fringe benefits is reduced  
B. only contract workers can be part-time but employees must be full-time  
C. only employees can file workers compensation claims  
D. it improves the company's stock price
- 14.** True or false? One drawback to job sharing is that employees may become competitive with one another, which could cause communication difficulties.
- 15.** True or false? The terms "sharing economy" and "access economy" both refer to a marketplace that differs from the traditional, more capital-intensive, shareholder-owned corporations.
- 16.** How could offering a shared job help an employer recruit more employees?
- 17.** Participating in the gig economy often means working for a company as a part-time worker with no guarantee the job will last. Why would someone do it?
- 18.** What advantages does a company gain from hiring gig workers?
- 19.** Robots have usually been operated by a human at the controls but now are becoming more independent. How?
- 20.** Artificial intelligence and robotics in the United States are thus far largely unregulated. Do you see more regulations coming? Why or why not?
- 21.** The use of robots at work \_\_\_\_\_.  
A. can reduce the exposure of humans to dangerous working conditions  
B. costs more than human labor  
C. must first be approved by the Occupational Safety and Health Administration  
D. is unlikely to affect the number of people in the overall workforce
- 22.** True or false? Worker displacement is a problem that companies have a legal duty to address when implementing the use of robots.
- 23.** Worker retraining programs for employees who lose their jobs to robots \_\_\_\_\_.  
A. are a "Band-Aid" solution most of the time  
B. will be needed only for a small minority of the workers who lose their jobs  
C. are offered and funded by the employers only if a sufficient number of workers are displaced  
D. are an obligation taken on by ethical companies



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## Epilogue: Why Ethics Still Matter

**Figure 11.1** Business ethics starts right where you are and leads you down the road of life with a set of standards and rules to follow. (credit: modification of “We’re on the Road to Nowhere” by Marc Dalmulder/ Flickr, CC BY 2.0)

### Chapter Outline

- 11.1 Business Ethics in an Evolving Environment
- 11.2 Committing to an Ethical View
- 11.3 Becoming an Ethical Professional
- 11.4 Making a Difference in the Business World



### Introduction

Even though they are business decisions, the choices we make at work can be personal in that they begin with our use of conscience. Just as the human body requires nourishment and care, so the conscience needs attention. Developmental psychologists have long understood that the formation of conscience, and the emergence of an individual in whom being and doing are comfortably aligned, take place over time. There are no shortcuts. Imperfection, self-doubt, and mistakes are part of the process. But what counts in life—including our choice of profession as well as the way we live our personal lives—is the manner in which we apply wisdom, education, and experience in forming the decisions we make and in becoming the person we wish to be.

Facing the right direction may be difficult at first, but with each decision toward wholeness, the path becomes a little easier to tread. The reverse is also true. When we neglect or ignore our conscience, it becomes more difficult for us to turn around. This final chapter explores the process of becoming a professional with an unshakeable ethical stance in a changing world. Where do you stand on your own path in life, and more important, which direction are you facing ([Figure 11.1](#))? In which direction will your choices regarding your work and career take you?



## 11.1 Business Ethics in an Evolving Environment

Not only does the world seem to have shrunk, but the twenty-first century pace of change seems to have sped up time itself. As the world becomes smaller and faster and companies adapt their practices to fit new conditions, the core of business ethics that guides corporate behavior remains the same, directed, as always, by shared values and morals as well as legal restraints. What happens when these are ignored? An example follows:

Rajat Gupta grew up in India, earned an MBA from Harvard, and prospered for years as managing director of McKinsey & Company, a preeminent management consulting firm. A respected business leader and cofounder of the Indian School of Business and the American Indian Foundation, Gupta served on many corporate and philanthropic boards. “Gupta was commended by people who knew him as a person who helped others. He was very active in providing medical and humanitarian relief to the developing countries. Born to humble circumstances, he became a pillar of the consulting community and a trusted advisor to the world’s leading companies and organizations.”<sup>1</sup> According to the Securities Exchange Commission, however, in 2009, Gupta provided hedge-fund manager and longtime friend Raj Rajaratnam with insider information about investor Warren Buffet’s agreement to purchase shares in Goldman Sachs, an investment bank for which Gupta served as a corporate director. Gupta was convicted of felony securities fraud relating to insider trading (three counts) and conspiracy (one count) and sentenced to two years in jail plus \$5 million in fines.<sup>2</sup> He had chosen to violate both business ethics and the law, as well as breaching his fiduciary duty as a corporate director.

When corporate managers follow codes of conduct in a virtuous fashion, the outcome is positive but tends not to make the news. That is not a bad thing. We should value ethical behavior for its own sake, not because it will draw media attention. Unethical behavior, on the other hand, is often considered newsworthy, as were the crimes of Rajat Gupta. In discussing his case, the Seven Pillars Institute for Global Finance and Ethics (an independent, nonprofit think tank based in Kansas City, Missouri, that helps raise public awareness about financial ethics) said, “As a true professional, the good manager strives to achieve a moral excellence that includes honesty, fairness, prudence, and courage.”<sup>3</sup> These are some of the virtues ethical players in the corporate world display.

Respected businesses and managers adhere to a well-thought-out vision of what is ethical and fair. The primary purpose of business ethics is to guide organizations and their employees in this effort by outlining a mode of behavior that proactively identifies and implements the right actions to take, ones that avoid lapses in judgment and deed. For instance, as we saw in [Defining and Prioritizing Stakeholders](#), identifying the needs and rights of all stakeholders, not just of shareholders, is a useful first step in fair and ethical decision-making for any business organization. The box that follows describes what happened when General Motors forgot this.

### CASES FROM THE REAL WORLD

#### General Motors’ Failure to Consider Stakeholders

General Motors (GM) has struggled with its brands and its image. Over the years, it has jettisoned some of its once-popular brands, including Oldsmobile and Pontiac, sold many others, and climbed back from a 2009 bankruptcy and reorganization. The automaker was hiding an even bigger problem, however: The ignition switch in many of its cars was prone to malfunction, causing injury and even death. The faulty switches caused 124 deaths and 273 injuries, and GM was finally brought to federal court. In 2014, the

company reached a settlement for \$900 million and recalled 2.6 million cars.

The case exemplifies the tension between the concept that “the only goal of business is to profit, so the only obligation that the business person has is to maximize profit for the owner or the stockholders” on one hand, and the ethical obligations a company owes to its other stakeholders on the other.<sup>4</sup> GM’s failure to consider its stakeholders and consumers when choosing not to report the potential for malfunction of the ignition switches led to an ethical breakdown in its operations and cost the company and its customers dearly. In addition, by treating customers as only a means toward an end, the company turned its back on a generation of loyal buyers.

### Critical Thinking

- What virtues and values shared by its long-time customers did General Motors betray by failing to disclose an inherent danger built into its cars?
- How do you think that betrayal affected the company’s brand and the way car buyers felt about the firm? How might it have affected its shareholders’ views of GM?

At first glance, you might not see many parallels between the purchase of a flask of wine in an ancient Greek marketplace and your online purchase of a week’s worth of groceries with a single click. In both cases, however, and throughout all the generations in between, buyers and sellers would agree that customers are entitled to be treated with honesty and accorded fair value for their money. Business leaders should approach ethical issues with the same sense of the permanence of ethical values. Technological innovation has changed the business environment and our lives, but it does not change the basis on which we make ethical business decisions. It does however, cause us to *expand* the application of our ethical standards to new situations.

For example, ethical principles are now being applied to online business. One reason is so that managers can navigate the privacy issues raised by the wholesale collection and sharing (intentional and otherwise) of customer data.

“The big ethical dilemmas of the twenty-first century have mostly centered on cybercrimes and privacy issues. Crimes such as identity theft, almost unheard of twenty years ago, remain a huge threat to anyone doing business online—a majority of the population. As a result, businesses face social and legal pressure to take every measure possible to protect customers’ sensitive information. The rise in popularity of data mining and target marketing have forced businesses to walk a fine line between respecting customers’ privacy and using their online activities to glean valuable marketing data.”<sup>5</sup>

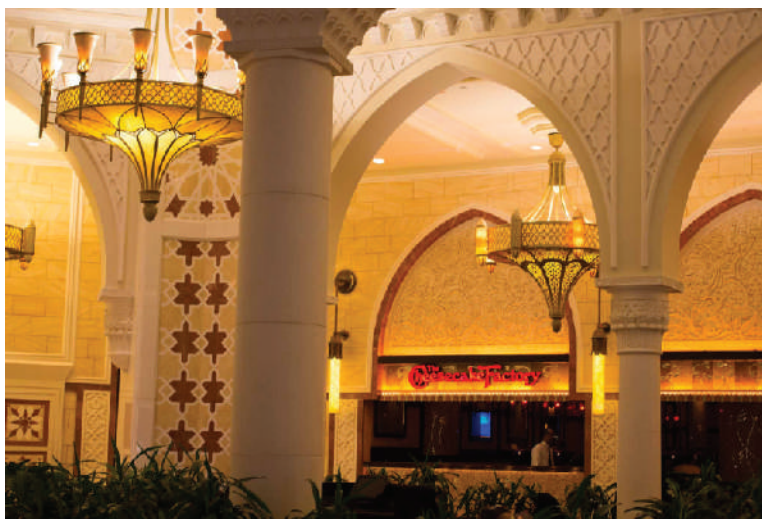
Which values are at play on the two sides of this dilemma? Which stakeholders are priorities at companies like Facebook and Equifax?

Another ethical dilemma arises for managers when government policy collides with a multinational corporation’s global ethical standards. Although this clash can occur in many industries, the information industry offers a useful example. Google’s stated mission is to “Organize the world’s information and make it universally accessible and useful.” From its founding, says the company’s website, “our goal has been to develop services that significantly improve the lives of as many people as possible. Not just for some. For everyone.”<sup>6</sup> This may not hold true in all Google’s markets, however.

“In 2006, [Google] launched a Chinese-language website in China and, contrary to its global ethical standards opposing censorship, agreed to Chinese government demands to eliminate links which the authorities found objectionable. For example, when a Web-surfer searched ‘Tiananmen Square’ on Google’s Chinese-language website in Los Angeles, reports of the 1989 demonstrations popped up. Not so if the same surfer entered the same words on Google’s Chinese-language site in Beijing (at various times either nothing or innocuous history came up).”<sup>7</sup>

In 2010, Google withdrew from China for a time, but it still wants to crack the huge market that country represents. It currently makes two applications available to Chinese users, but Gmail, YouTube, Google maps, and its search engine remain largely banned by the government.<sup>8</sup> Does Google have an obligation to follow its own internal value of providing information to its users, or to respect China's policy of censorship? Is its current strategy in China coherent, or does it open the door for ethical lapses?<sup>9</sup>

Consider one more of the many general ethical challenges managers of global businesses now face. The Cheesecake Factory, the California-based restaurant chain that prides itself on large portions and sumptuous desserts, opened a restaurant in Hong Kong in May 2017. Since then, the restaurant has been overwhelmed by customers intent on having not just a slice of cheesecake but an “American” experience. The restaurant's menu is the same in all of its two hundred stores around the world. Whether you are eating in Los Angeles, Hong Kong, or Dubai, you can order dishes with mozzarella, fontina, parmesan, cheddar, feta, or Swiss cheese, along with plenty of bacon, sour cream, and potatoes ([Figure 11.2](#)). The interior decor is also the same wherever you go, guaranteeing a uniform experience.<sup>10</sup>



**Figure 11.2** Does the Cheesecake Factory in Dubai or anywhere else in the world have an obligation to give customers what they want, or what they need? Would compromise betray its mission? Would it disappoint customers? (credit: “cheesecake factory Dubai mall three” by Krista/Flickr, CC BY 2.0)

Does it raise any ethical issues for the Cheesecake Factory not to tailor its offerings to local tastes and norms, as competing chains have done? People in Hong Kong, for example, normally eat a diet with fewer calories and dairy products and that is much lower in fat and sugar than is typical in the United States. As one young customer at the Hong Kong outlet exclaimed, “Chinese people just cannot handle this much cheese.”<sup>11</sup>

Yet the company is offering a product the great majority of the public wants. Does it owe them anything in addition? That is, does the Cheesecake Factory have an obligation to give customers what they *need*, rather than what they *want*? In many parts of the world, there is pronounced desire for many things American, in particular, and Western, in general. Do Western companies have a primary mandate simply to meet this want, or do they have an obligation to deliver what is better for others? This is a core ethical consideration that has implications for companies far beyond simple marketing strategies and tactics. To impose certain products and services on other cultures because Western nations believe these would be best for them certainly would be a form of imperialism. However, for corporations to satisfy expressed wants could be applauded as an honorable response to customers identifying their own preferences. To preemptively decide what ought to be consumed by others—because it is for their own good—might be a form of paternalism. Ultimately, do customers or do companies have the right to make these decisions?

You might answer that it would depend on the company and its products or services, and you would be right to see it in this light. What is unmistakable, however, is that these truly are decisions fraught with ethical dimensions. Business leaders must become accustomed to considering them in this way.

## 11.2 Committing to an Ethical View

Professional values and ethical reasoning are traits valued by all good employers. In fact, we have seen throughout this book that employees' sound ethical decisions lead to higher profits in the long run. How do we develop the ability to make such decisions? We will see in the coming paragraphs that it takes discipline, commitment, and practice. Strong work and personal relationship matters, too.

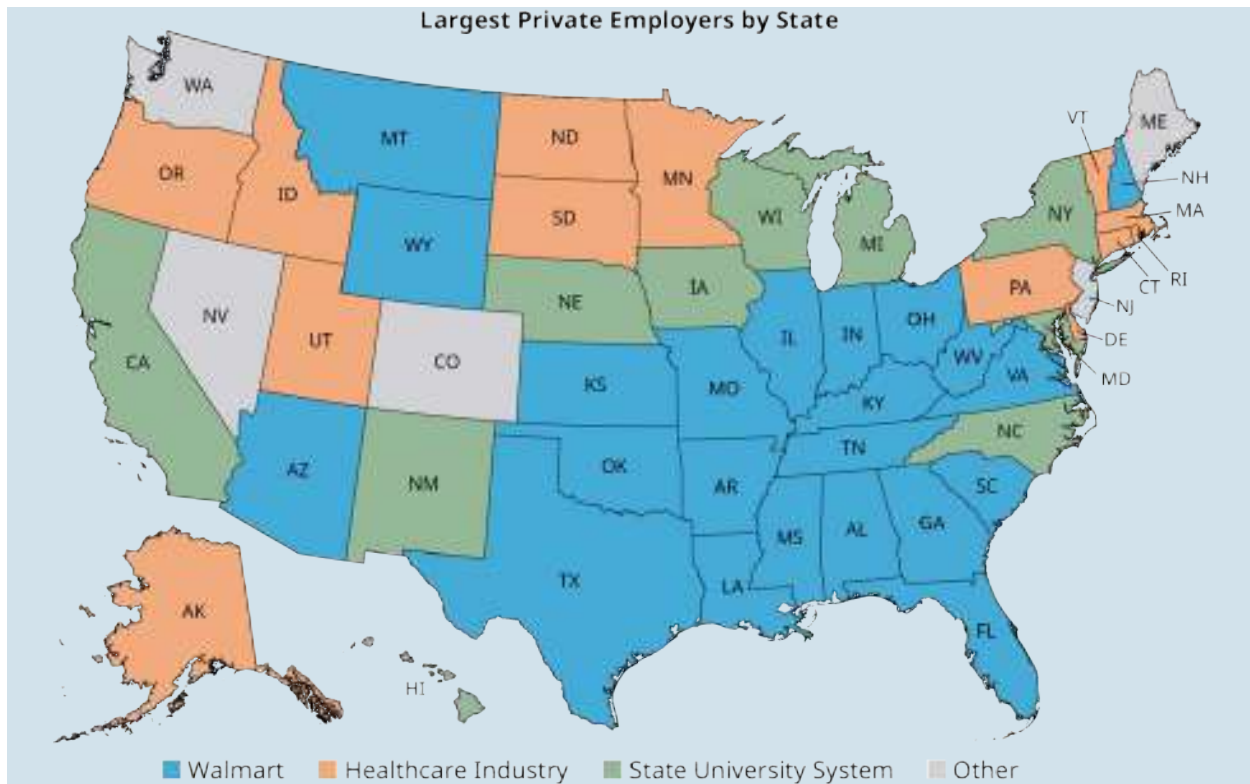
### Relationships Matter

Workplace research indicates that employees are more likely to be unethical when they are dissatisfied with their jobs or see their superiors acting unethically.<sup>12</sup> How do relationships influence this equation? A good example set at the top and the freedom to determine a comfortable work-life balance for oneself—all influenced by the organization's positive relationship with its employees—lead to a more ethical workplace. Consider Walmart's relationships with its many employees.

#### CASES FROM THE REAL WORLD

##### Walmart: "Save Money. Live Better."

With annual revenues of almost half a trillion dollars (2017), 2.3 million employees, and nearly twelve thousand stores worldwide, Walmart is the largest private employer on the planet ([Figure 11.3](#)).<sup>13</sup> In fact, it is bigger than many national economies, including some in the developed world. In 2007, it replaced its longstanding slogan, "Always Low Prices," with "Save Money. Live Better."<sup>14</sup>



Source: Comen, Evan, and Michael B. Sauter, "The Largest Employer in Every State," 24/7 Wall St. March 17, 2017.

**Figure 11.3** According to Walmart, ninety percent of people in the United States live within ten miles of one of its stores.<sup>15</sup> What does this say about the nature of for-profit business in the United States? What might such a map have looked like one hundred years ago? (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Walmart attempts to demonstrate virtuousness by holding itself out as a responsible corporation, concerned especially for the lower-income families that make up the majority of its customers.<sup>16</sup> But the company has experienced problems over the years, including lawsuits over illegal firing of employees, withholding of overtime pay and benefits, violations of foreign workers' rights, wage violations, violations of child labor laws, and failure to provide health coverage where and when applicable.<sup>17</sup>

Thousands of Walmart's U.S. employees are also reported to be receiving public assistance to make ends meet.<sup>18</sup> Meanwhile, the Walton family, operators of the retailer that purports to help people "live better," recently made \$12.7 billion in a single day.<sup>19</sup>

### Critical Thinking

- If you were an upper-level manager at Walmart, what kinds of decisions would you expect to make regarding the company's challenges?
- As a Walmart manager, how would you view the company's relationships with its stakeholders, including its employees? How would that view guide your decision-making?
- As a company executive, would you try to increase employee benefits? Why or why not?

Where does a case like Walmart's leave us? If a corporation with 2.3 million employees globally has reason to be concerned that at least some are dissatisfied with the job and may have witnessed some degree of unethical management behavior, the firm might also need to assume that some of those employees could choose to act unethically in the course of any business day. Of course, no job is perfect, and most of us experience some Monday mornings when we do not necessarily want to go into the office or exert the energy to be productive. And a company that provides high-quality goods to consumers at relatively low prices should get at least some credit for treating consumers fairly and ethically. It remains true, however, that any firm that wishes its employees to act ethically in the workplace must develop managers who model such behavior consistently toward all the company's stakeholders. No other single act on the part of business leaders is as important as this in fostering ethical behavior on the part of employees.

## Using Values to Make Hard Choices

According to the logic of the market, each of us is a commodity with specific assets, such as education, training, and job experience. But we are more than commodities, and what moves us are values. Can you identify your core values and imagine how you might live them in the workplace ([Figure 11.4](#))? We'll return to this question at the end of the chapter.



**Figure 11.4** Which values are important to you? Which will you choose to act on in your career? (credit: modification of "doors choices choose open decision" by qimono/Pixabay, CC0)

To make the difficult decisions that come with career, personal life, and the balance between both, we must identify our personal values. Values provide us with the *why* for doing what we do. As an entrepreneur, for instance, you may find yourself working nonstop, dealing with emergency phone calls at 3:00 a.m., and doing a great deal of soul-searching about the direction and culture of your new venture. These tasks collectively might serve as impediments to happiness unless they truly reflect your underlying values.

## The Role of Loyalty

Customers often remain loyal to a brand because of its appearance, functionality, or price. Companies want loyal customers like these and will go to great lengths to keep them. These relationships are external



relationships between the company as an organization and its customers as a group.

Internal relationships exist among people, including among managers, employees, suppliers, and distributors. The loyalty that forms good internal relationships and enables us to rely on one another to do our work is a matter of trust and develops over time. Although it may be tested by rivalry, resentment, misunderstanding, and personality or other conflicts, without such trust, a company cannot function properly.

However, as we have seen, loyalty between employee and employer is a two-way street. The organization takes the first step by hiring a candidate in whom it will invest time, training, and money, and whose success it will reward with recognition, raises, and bonuses. No employer wants to spend time and money nurturing new talent only to see people leave for another firm. Therefore, it falls to the new professional, in turn, to decide whether his or her values align with those of the organization, and if so, to demonstrate a commitment to grow with the company over time. Achieving such clarity about your career goals, the type of company you would be proud to work for, and your vision of your future self requires some self-scrutiny. In the process, you will further clarify your personal and ethical values and start to become an ethical professional.

### 11.3

## Becoming an Ethical Professional

“‘Professionalism’ is the conduct, aims or qualities that characterize or mark a profession or professional person. It implies there is a quality of workmanship or service. But in reality, it’s more about ethical behavior in the workplace. Every organization knows that a professional and ethical reputation is the difference between success and failure, and they seek to keep those staff who are the most professional.”<sup>20</sup>

Ethical professionals work for companies whose values align with their own. How do you evaluate a company to see whether it is a good occupational fit and one that will allow you to live your ethical values every day?

## Finding the “Right Fit”

Ethics has become a major consideration for young people in their selection of work and career. The following observation about young British workers applies to their counterparts in the United States, as well: “There’s a quiet revolution happening. . . but it’s not about pay, hours or contracts. It’s a coup d’état led by the nation’s young, politically engaged jobseekers who demand employers enshrine values and ethics in their business model, not just profit.”<sup>21</sup>

Many job seekers want to feel that what they are doing is not just making money but making a difference, that is, contributing to the company in unique ways that reflect their core values, conscience, and personality. They believe an individual has worth beyond his or her immediate work or position. Many modern companies thus try to give greater weight to the human cost of decisions and employee happiness. They know that, according to studies, employees in “companies that work to build and maintain ethical workplace cultures are more financially successful and have more motivated, productive employees.”<sup>22</sup> The decision whether to transfer someone from Boston to Salt Lake City, for instance, would now likely include the employee from the beginning and consider the impact on family members and the employee’s future, in addition to the needs of the company.

This was not always the case, and there are several reasons for the change. The first is that satisfied employees are more productive and feel greater commitment to the organization.<sup>23</sup> Second, there are more options for job seekers, which gives them more freedom to choose a company for which to work.

“When we graduate from school, or whenever we are thinking about changing jobs, we are matching three things in deciding on our “vocation”—the job market (Are there jobs and opportunities?), our skills (Do I have the right skills to succeed in a particular job?) and our passions or beliefs (What do I want to do?) [with the concept that] worthwhile work can be found in working in a corporate culture that respects its workers and their personal lives. You may work where management is supportive and workers thrive and advance, but you can also find yourself working in a toxic environment where human dignity is torn down every day and responding to one’s family commitments is regarded as weaknesses.”<sup>24</sup>

Many business journals report annually on how highly employees rate their work places ([Figure 11.5](#)). For example, you can consult *Fortune’s* annual list of “100 Best Companies to Work For,” which you can search by such factors as diversity, compensation, and paid time off. You can also consult specialized lists such as *Forbes’* “100 Best Workplaces for Women” and *Black Enterprise’s* “50 Best Companies for Diversity.”



Sources: McCarthy, Niall. “America’s Best Large Employers.” Statista. May 10, 2017. Kalogeropoulos, Demitrios. “Why Costco Doesn’t Worry about Paying Workers \$13 an Hour.” The Motley Fool. Apr 29, 2015.

**Figure 11.5** With insurance coverage for part-time workers, higher-than-industry-average pay, and an overall employee satisfaction rating of 9.58 of a possible 10, Costco is often rated the best large employer to work for by *Forbes* and Statista. It is not just a generous employer; it is efficient, too, operating on a profit margin that meets the norm in the retail grocery business. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

A third reason more companies are considering what truly makes employees happy is that even more than loyalty, employees appear to value the freedom and responsibility to act as moral agents in their own lives. A *moral agent* is someone capable of distinguishing right from wrong and willing to be held accountable for his or her choices.

The exercise of moral agency includes making a judgment about the alignment of personal and corporate conscience. Rather than jumping at the first job offer, moral agents assess whether the values expressed by the organization conform with their own, while recognizing that there is no perfect job. Even the most ethical organizations make mistakes, and even the most corrupt have managers and workers of integrity ([Figure 11.6](#)). This is why the “right fit” is more likely to be a job in which you can grow or that itself will change in a way that allows you to find greater meaning in it.



**Figure 11.6** Abuse of power may not come as a surprise, but it should not be “business as usual.” A firm should balance profitability with responsibility to society in a way that lifts the communities and neighborhoods of which we are part. (credit: modification of “Los Angeles Women’s March (Unsplash)” by Samantha Sophia/Wikimedia Commons, Public Domain)

## It’s Not About the Money—Is It?

You may follow a professional vocation that offers low pay or low status but yields nontangible rewards, such as nonprofit work, nursing, or teaching. Or you may find a position that pays a great deal and offers job security but leaves you feeling unhappy or unfulfilled. For some professionals, these might include law, accounting, dentistry, or anything else. The point is that occupations with high compensation and a certain stature do not always infuse their holders with the greatest psychological and emotional rewards, and it is different for each of us. In the best of all worlds, you might embark on a well-paying career that helps others or contributes a much-needed good or service to society. Finding such work is easier said than done, of course, because the aim of most jobs is not to help people find meaning or happiness. Where these do occur, they are often ancillary effects of work, whose real purpose is the profitability without which there would not be any jobs at all.

Also consider the gap between the purpose of the business and the purpose of the individuals in it. Except in a few startups, these purposes are not identical. Even artists, musicians, and independent practitioners who derive great meaning from their work are not immune to the frustrations over money or career that affect everyone else.

It has been estimated, however, that the amount of money needed to be happy is not actually that much, at least by Western standards, although it is well above the poverty line.<sup>25</sup> Most people find themselves somewhere in the middle in terms of satisfaction and pay. Finding the proper balance between the two for *you* is taking a step on the way to your growth as a professional. You will make that assessment not once but throughout your career as you move in and out of jobs. Even if it turns out to be the best decision of your life, the choice to work for a company because of its mission, leadership, or cultural values should be intentional and based on sufficient knowledge of the company and yourself. To be appreciated for your contributions in the workplace, to work with congenial colleagues, or to provide a product or service of which you are proud might rival money as your most intrinsic motivator at work. Studies attest to this and, as professionals of integrity, we must each decide for ourselves how strong a benefit salary alone is in the jobs we select.

## LINK TO LEARNING

Watch the [TEDx presentation “Money Can Buy Happiness”](https://openstax.org/l/53MoneyHappy) about money and its relationship to happiness (<https://openstax.org/l/53MoneyHappy>) to learn more.

## The Role of Ethical Top Leadership

As you consider your future path, perhaps leading toward a leadership role, keep in mind that perhaps the most effective way ethical behavior is learned in a company is through the modeling of that behavior by senior executives and others in leadership positions. This modeling sets what is known as “tone at the top.” Employees may already have a personal moral code when they join an organization, but when they see key figures in the workplace actually living out the ethical values of the company, they are more likely to follow suit and take ethics seriously. Leaders’ ethical behavior is especially important in emerging fields like artificial intelligence, where questions of safety, bias, misuse of technology, and privacy are raised daily.<sup>26</sup> It is not enough to offer codes of conduct, training, reporting, and review programs, no matter how thorough or sophisticated, if management does not adhere to or promote them. These are tools rather than solutions. The solutions come from leaders using the tools and showing others how to do the same. This takes practice, reinforcement, and collaboration at all levels of an organization. The result will be a culture of ethics that permeates the company from top to bottom.

Even leaders can falter, as the following box demonstrates. Also read the stories of ten ethical leaders in the appendix [Profiles in Business Ethics: Contemporary Thought Leaders](#).

## CASES FROM THE REAL WORLD

### Swanson’s Rule #1: Don’t Plagiarize

Bill Swanson, former CEO of the defense contractor Raytheon, became well known for publishing a booklet entitled *Swanson’s Unwritten Rules of Management*, which included thirty-three brief maxims for achieving success in business and cultivating a virtuous life in the corporate world.<sup>27</sup> The list included items like the famous “Waiter Rule,” which held that you can judge a person’s character by the way he or she treats those in subservient positions.

Swanson was hailed as a sage of modern business whose rules had saved companies like Czar Entertainment and Panera Bread from making bad hiring decisions.<sup>28</sup> Then it was discovered that he had plagiarized the list from several sources.<sup>29</sup> The booklet was discontinued and Swanson’s compensation and retirement package was modified downward.<sup>30</sup> As in similar cases of ethical lapse, however, the greatest damage was to his reputation, despite an otherwise distinguished 42-year career.<sup>31</sup>

### Critical Thinking

- Does this case surprise you? Why or why not?
- What do you think is the effect on a company’s employees of unethical behavior at the top?

Ethics matter not merely because acting unethically will end in a compliance problem or public relations nightmare but because ethics is a way of life, not a hurdle to overcome. Moreover, the benefit of ethical behavior can grow over time so that a company begins to attract other ethical professionals and develops a reputation for honesty, integrity, and dependability. In a globally competitive world, these are not inconsequential factors. In an ethical workplace, employee satisfaction creates more loyalty to the company and morale improves because employees and managers feel they are part of an effort they can be proud of. Business performance picks up in ways ranging from higher earnings per share to increased customer retention to more satisfied employees.

Consider the net income of two corporations that, as of 2018, have appeared on eleven consecutive annual lists of the world's most ethical companies as determined by the Ethisphere Institute (<https://ethisphere.com>). The first is United Parcel Service (UPS), founded in 1907, which earned net income of \$4.91 billion in 2017.<sup>32</sup> The second is Xerox, founded in 1906, which earned net income of \$195 million in 2017.<sup>33</sup> Notice the staying power of these two companies, as well. Each is more than a century old and has a global presence. To test the consumer confidence these corporations evoke, consider your own opinion of how reputable they are. Ask your friends and family, too.

Again, employee loyalty, a positive work environment, and strong financial performance are not accidents; they are the result of intentional efforts on the part of leadership and board members who provide ethical vision and a plan for execution to all stakeholders. Ethical business need not be a zero-sum game with winners and losers; it can create situations in which everyone wins. Is there a more attractive environment for those just starting out in their careers? To be part of something profitable, responsible, and individually uplifting justifies all the work required to get there.

#### 11.4

### Making a Difference in the Business World

On what will you base your professional identity? Do you believe an employer's enlightened self-interest is enough to ensure the ethical behavior of employers and employees? Or do you embrace "the critical importance of individual ethical choice in making our organizations, our professions and our culture serve all of humanity"?<sup>34</sup>

As attractive as high salary and comfortable lifestyle are to many, the life of a true professional is guided less by the desire to amass material goods than by a willingness to adhere to a code of ethical behavior and make the sometimes selfless decisions that protect the public and the corporation from misdeeds. In ideal form, that code of behavior is an expression of everything we have covered in this text regarding virtue, character, commitment, resilience, and the use of professional skills and training for the benefit of others. As first-century BCE Jewish religious leader Rabbi Hillel is said to have put it, "If I am not for myself, then who will be? And if I am only for myself, then what am I? And if not now, when?"

Today, it is often said that what counts at the end of a career is not how much money we made or how high up the corporate ladder we climbed. Rather, the real test is the difference we made—whether we have helped others or succumbed to motives such as greed and hubris (excess pride). Hubris creates the delusion that we are above the law and will never get caught. It has been used to justify many ruthless decisions whose sole criterion, in the end, is the potential for personal gain. This book has provided many examples on which to reflect about whether taking this short-term view actually benefits the company. In fact, hubris has ruined many lives and taken down a number of companies. Some, like Enron and Theranos, were once touted as icons of efficiency and ethical leadership.

## Identifying Your Values and Mission

The values we choose to honor are the essence of ourselves, and we carry them with us wherever we live, work, and play. As we noted, the career you choose should reflect your values, whether you work at a for-profit or nonprofit organization, at Wells Fargo Bank or Doctors Without Borders (a medical rescue organization). It also is possible that you might work for a for-profit company and volunteer extensively on your own or on behalf of your firm in the nonprofit sector. Whatever path your career takes, it remains important not to let your well-considered values be diminished by others who do not prize loyalty or industriousness, for instance. Your career is not a contest in which the person who finishes with the biggest portfolio or fastest jet skis wins anything other than an empty prize. It is far better to treat others with integrity and respect and be surrounded by the true emblems of a successful career—family, friends, and colleagues who will attest to the dignity with which you have worked. In the final analysis, if you achieve a life of honor, then you have won.

How do you keep personal values like integrity, fairness, and respect close at hand? The best way is by writing them down, prioritizing them, and fashioning them into a personal mission statement. Most companies have mission statements, and people can have them, too. Yours will guide you on your path, clear away distractions on the road, and help you correct any missteps. It should be flexible, too, to account for changes in yourself and your goals. Your mission statement is not a global positioning system so much as a compass that guides you toward discovering who you are and what drives you ([Figure 11.7](#)).



**Figure 11.7** Professionals need to develop a personal mission statement to avoid straying from the path they have set for themselves. A personal mission statement can serve as an ethical compass, guiding an individual through his or her professional and personal life. (credit: modification of “adventure compass hand macro” by Unknown/Pixabay, CC0)

Let us write your mission statement. Because it will reflect your values, start by identifying a handful of values that matter most to you. You can do this by answering the questions in [Table 11.1](#); you may also find it beneficial to keep a journal and update your answers to these questions regularly.



### Identifying Your Values

1. Of all the values that matter to you (e.g., honesty, integrity, loyalty, fairness, honor, hope), list the five most important.
2. Next, write down where you believe you learned each value (e.g., family, school, sports team, belief community, work).
3. Write a real or potential challenge you may face in living each value. Be as specific as possible.
4. Commit to an action in support of each value. Again, be specific.

**Table 11.1**

Now you can incorporate these values into your mission statement, which can take the form of a narrative or action. There are many formats you can follow (see the Link to Learning box), but the basic idea is to unite your values with the goals you have set for your life and career. You can, for instance, link the benefit you want to create, the market or audience for which you want to create it, and the outcome you hope to achieve.<sup>35</sup> Keep your statement brief. Richard Branson, founder of the Virgin Group, wants “to have fun in [my] journey through life and learn from [my] mistakes.” Denise Morrison, CEO of Campbell Soup, aims “to serve as a leader, live a balanced life, and apply ethical principles to make a significant difference.”<sup>36</sup> Your own statement can be as simple as, for instance, “To listen to and inspire others,” or “To have a positive influence on everyone I meet.”

### LINK TO LEARNING

Read this [blog](https://openstax.org/l/53Mission), “The Ultimate Guide to Writing Your Own Mission Statement,” by Andy Andrews (<https://openstax.org/l/53Mission>) for more information about creating a personal mission statement.

Watch the [TEDx talk](https://openstax.org/l/53LifePurpose) “How to Know Your Life Purpose in Five Minutes” about the self and identifying values (<https://openstax.org/l/53LifePurpose>) to learn more.

## Putting Your Values and Mission Statement to the Test

There may be no better place to put personal values and mission to the test than in an entrepreneurial role. Startups cannot be run on concepts alone. More than almost any other kind of venture, they demand practical solutions and efficient methods. Entrepreneurs usually begin by identifying a product or service that is hard to come by in a particular market or that might be abundantly available but is overpriced or unreliable. The overall guiding force that inspires the startup then is the execution of the company’s mission, which dictates much of the primary direction for the firm, including the identification of underserved customers, the geographic site for a headquarters, and the partners, suppliers, employees, and financing that help the company get off the ground and then expand. In a brand-new organization, though, where does that mission come from?

The founder or founders of a firm develop the company's mission directly from their own personal beliefs, values, and experience; this is particularly true for nonprofits. Sometimes the inspiration is as simple as the recognition of an unmet need, such as the rising global demand for food. Bertha Jimenez, an immigrant from Ecuador who was studying engineering at New York University, could not help but be concerned that while craft breweries were riding a wave of popularity in her adopted city, they were also throwing away a lot of barley grain that still had nutritional value but that no one could figure out how to reuse. After a few attempts, Jimenez and two friends, also immigrants, finally hit on the idea of making flour out of this barley grain, and thus was born the Queens, New York-based startup Rise Products, whose website proclaims that "Upcycling is the future of food."

Rise Products does not only supplies local bakers and pasta makers with its protein- and fiber-packed "super" barley flour for use in products from pizza dough to brownies. It has also sent product samples on request to Kellogg, Whole Foods, and Nestlé, as well as to a top chef in Italy. Jimenez and her fellow cofounders say, "In the long term, we can bring this to countries like ours. We want to look at technologies that won't be prohibitive for other people to have."<sup>37</sup>

If we were to diagram the relationship between founders' values and the entrepreneurial mission, it would look something like this:

personal values → personal mission statement → entrepreneurial mission statement

Just as a personal mission statement can change over time, so can the company mission be adapted to fit changing circumstances, industry developments, and client needs. TOMS Shoes is another entrepreneurial firm founded to fill a need: For every pair sold, the company donates a pair of shoes to a child without any. Over time, TOMS Shoes has expanded its mission to also offer eyeglasses and improved access to clean water to people in developing countries. It calls itself the "One for One" company, promoting founder Blake Mycoskie's promise that "With every product you purchase, TOMS will help a person in need."<sup>38</sup>

The point is, if you have clarified your personal values and mission statement, there is almost no limit to the number of ways you can apply them to your business goals and decisions to "do good and do well" in your career. The purpose of business is relationships, and the quality of relationships depends on our acceptance of self and concern for others. These are developed through the virtues of humility on the one hand and courage on the other. The demanding but essential task of life is to practice both. In that way—perhaps *only* in that way—can we be truly human and successful business professionals.

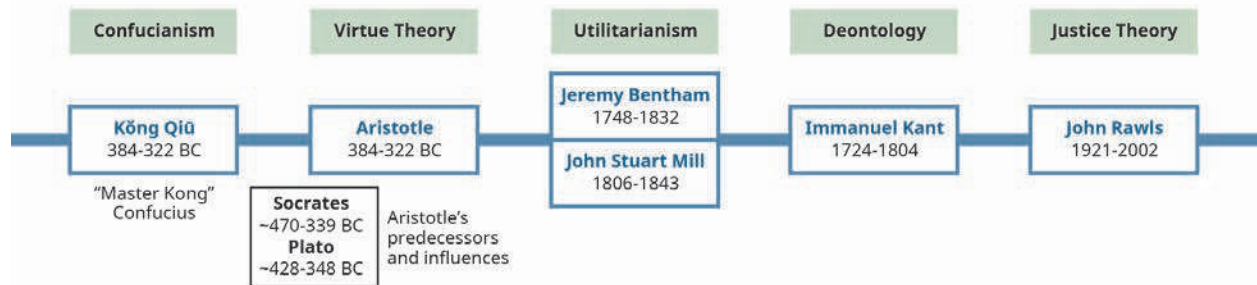


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## A The Lives of Ethical Philosophers



**Figure A.1** Over time and in different parts of the world, philosophical ethics has occupied the thoughts of many significant thinkers. Here are the names and lifespans of some of those figures. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

### The Ethics of Aristotle: Virtue Theory

#### Aristotle, 384 BCE–322 BCE

Aristotle (384 BCE–322 BCE) was a student of Plato, who was himself a student of Socrates, one of the founders of Western philosophy. Aristotle spent about twenty years at Plato’s Academy in Athens, first as a student and then as an associate. Later he tutored the young Alexander of Macedonia, who would become Alexander the Great.<sup>[i]</sup>

Aristotle eventually returned to Athens where he opened his own school, the Lyceum, and where he studied and taught extensively in philosophy, government, and the natural and social sciences. He, along with most of the classical Greek thinkers, believed that all academic disciplines were linked. They were far less inclined than we are to rigidly separate academic subjects.

Aristotle’s principle work on ethics, *The Nicomachean Ethics*, was dedicated either to his father or son, both of whom were named Nicomachus, a popular name within his family. In *Ethics*, where Aristotle laid out the essence of virtue theory, he stated that if we truly desire people to be ethical, then we must have them practice ethics from an early age. Just as Plato claimed that unethical individuals are simply uneducated in ethics, so Aristotle held that constant practice is the best means by which to create ethical humans. He contended that men—for Aristotle, unlike Plato, education was restricted to males—who are taught to be ethical in minor matters as boys will automatically act ethically in all matters as they mature. Of course, a legitimate question regarding both philosophers is whether we believe they are correct on these points.

In *Ethics*, Aristotle introduced the concept of what is usually referred to as the golden mean of moderation. He believed that every virtue resides somewhere between the vices of defect and excess. That is, one can display either too little or too much of a good thing, or a virtue. The trick, as for Goldilocks, is to have just the right amount of it. Adding to the complexity of this, however, is the fact that striking the right balance between too

i Aristotle’s family originated from a region in northern Greece that was adjacent to classical Macedonia, and his father, Nicomachus, had similarly tutored Alexander’s father, Philip II of Macedonia.

much and too little does not necessarily put one midway between the two. The mean of moderation is more of a sliding value, fluctuating between defect and excess, but not automatically splitting the difference between them. Depending on the virtue in question, the mean may lie closer to a deficit or to a surplus. For example, take the virtue of courage ([Figure A.2](#)). For Aristotle, the mean laid closer to foolhardiness or brashness. It's not that foolhardiness is less a vice than cowardice; it's just that courage verges closer to the one than to the other.



**Figure A.2** (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

What constitutes a virtue in the first place, according to Aristotle? Besides courage, the virtues include wisdom, kindness, love, beauty, honesty, and justice. These approximate the same virtues proclaimed by Plato.

Aristotle also speaks of *eudaemonia*, a perfect balance of happiness and goodness interpreted classically. Humans experience *eudaemonia* both in themselves and in the world when they act virtuously and live a life of rational thought and contemplation. As Aristotle argued, rational thought is the activity of the divine, so it is appropriate for men to emulate this practice, as well.

## The Ethics of Bentham and Mill: Utilitarianism

### Jeremy Bentham, 1748–1832

### John Stuart Mill, 1806–1873

Jeremy Bentham, an attorney, became what we would today call a consultant to the British Parliament in the late-eighteenth century. He was given the task of devising a method by which members could evaluate the worth of proposed legislation. He took a Latin term—*util*, or utility, usefulness, or happiness—and calculated the number of utils in proposed bills. Essentially this quantified the scoring of upcoming legislation—those pieces with the greatest number of utils were given a higher ranking than those with the least.

Utilitarianism as an ethical system today, though it has application to many areas beyond that simply of lawmaking, holds to this same principle. When making moral decisions, we are advised to select that action which produces the greatest amount of good for the greatest number of people. If the balance of good or happiness or usefulness outweighs that of evil, harm, or unhappiness, then the choice is a moral one. On the other hand, if the balance of evil outweighs that of good, then the choice is immoral. Due to this emphasis on the outcome of ethical decisions, utilitarianism is classified as a consequentialist theory.

Bentham lays much of his theory out in *An Introduction to the Principles of Morals and Legislation* (1789). There, he proposes the hedonic calculus—from the Greek *hedone*, or pleasure—as a mechanism by which one can determine the amount of pleasure versus pain in moral choices.

Bentham found a ready supporter and lieutenant in James Mill (1773–1836), a Scottish lawyer who came to assist Bentham in championing utilitarianism as a political philosophy. And when Mill's son, John Stuart, was born, Bentham, having no children of his own, became his godfather. Together, Bentham and the elder Mill established a curriculum through which the younger Mill was schooled at home, an arrangement that was not uncommon in the early nineteenth century. John Stuart was evidently a prodigy and at an early age was taking on Greek, Latin, economic theory, and higher mathematics.

An odd twist accompanies the arrangements that Bentham made for his body after his death. Because donated cadavers were rare in teaching hospitals and this had led to a rash of grave-robbing, he stipulated

that his body be dissected by surgeons for the education of their students, while in the presence of his friends. He further requested that, afterward, his body be re-stitched together, dressed in his own clothes, and perpetually displayed at what was then a new school that he had endowed, University College in London. To this day, Bentham's corpse, with a wax head to replace the original, mummified one, is posed in a glass case at meetings of the trustees of University College, all by provision of his will.

John Stuart Mill, as he reached adulthood, became a leader of the second generation of utilitarians. He broke with his mentor, though, in one significant way: by distinguishing between different levels of pleasure—higher and lower ones—and offering a means by which to determine where any given pleasure falls. While Bentham insisted that ranking pleasures were subjective and that no one could truly say that some pleasures were objectively more worthy than others, the younger Mill claimed that we could indeed specifically determine which pleasures were the higher ones by polling educated people. Those pleasures which were ranked highest by this select cohort were indeed the greatest ones, and those which were ranked least were the inferior ones.

Mill also refined the political applications of utilitarianism and, in so doing, laid the foundation for the political movement of libertarianism. Though he himself never used this term and probably would take issue with being labeled a libertarian were he alive today, he did introduce many of the principles that are esteemed by libertarians. In his most important work on political freedoms, *On Liberty* (1859), he introduced the no-harm rule. By this, Mill proposed that no individual be deprived of his or her right to act in any fashion, even a self-destructive one, provided that his or her action does not impinge *physically* on others.<sup>[ii]</sup>

For example, according to Mill, we may try to persuade an alcoholic to give up drinking. We may marshal our best arguments in an attempt to convince him or her that this is wrong and harmful—"remonstrate" is the verb that he employed. Still, if the alcoholic persists in drinking excessively despite our best efforts to encourage him or her otherwise, then no power of the state ought to be brought to bear to prevent him or her from drinking, unless and until the drinking causes physical harm to others. One can see the application of this to, say, motorcycle-helmet laws today. Mill would hold that even though the injury-preventing capacity of helmets clearly can be demonstrated, bikers still ought to be permitted to refrain from wearing them if they so choose.

The significance of utilitarianism in our era lies in the fact that many of us implement utilitarian thought processes when we have to make many ethical choices, even if we don't necessarily consider ourselves to be utilitarians. In addition, utilitarianism continues to influence new generations of philosophers and ethical thinkers, such as the Australian Peter Singer, an inspiration for the contemporary animal rights movement who is currently on the faculty at Princeton University.

A telling critique of utilitarianism, however, is the objection that it assays no good or evil in acts themselves, but only in the good or evil that these acts produce. If a proposed municipal, state, or federal law could be demonstrated to serve the defined interests of a majority at the expense of the interests only of a minority, then utilitarianism would suggest that such a law is good and moral. Little recognition appears within utilitarianism of the possibility of tyranny of the majority. Many critics of utilitarianism have scored this weakness of the ethical system. A persuasive instance of this is the short story "Those Who Walk Away from Omelas" by the American writer Ursula K. Le Guin (1929–2018).

## The Ethics of Kant: Deontology

### Immanuel Kant, 1724–1804

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ii A limitation within Mill's no-harm principle was its focus solely on physical harm without acknowledgement of the reality of psychological damage. He made no allowance for what the law today denotes as pain and suffering. In his defense, this concept is a twentieth-century one and has little credibility among Mill's contemporaries.



The sage of Königsberg in Prussia (now Kaliningrad in Russia), Kant taught philosophy at the University of Königsberg for several years. In fact, throughout a very long lifetime, especially by the standards of the eighteenth century, he never traveled far from the city where he had been born.

Kant's parents were members of a strict sect of Lutheranism called pietism, and he remained a practicing Christian throughout his life. Though he only occasionally noted religion in his writing, his advocacy of deontology cannot be understood apart from an appreciation of his religious faith. Religion and ethics went hand in hand for Kant, and God always remained the ground or matrix upon which his concept of morality was raised.

Though he never married, Kant was by contemporary accounts no dour loner. He apparently was highly popular among his colleagues and students and often spent evenings eating and drinking in their company. He frequently hosted gatherings at his own lodging and served as a faculty master at the university. He was also a creature of habit, taking such regular walks through the neighborhood surrounding campus that residents could tell the time of day by the moment when he would pass their doorway or window.

The term deontology stems from the Greek *deon*—duty, obligation, or command. As an ethical system, it is the radical opposite of utilitarianism in that it holds that the consequences of a moral decision are of no matter whatsoever. What *is* important are the motives as to why one has acted in the way that one has. So an action may have beneficial results, but still be unethical *if* it has been performed for the wrong reasons. Similarly, an action may have catastrophic consequences, but still be deemed moral if it has been done on the basis of the right will.

Not only is deontology non-consequentialist, it is also non-situationalist. That is, an act is either right or wrong always and everywhere. The context surrounding it is unimportant. The best example of this is Kant's famous allusion to an axe-murderer who, in seeking his victim, must always be told the truth as to his would-be victim's whereabouts. By Kant's reasoning, one cannot lie even in this dire circumstance in order to save the life of an innocent person. Kant was not diminishing the significance of human life in holding that the truth must always be told. Instead, he was insisting that truth-telling is one of the inviolable principles that frames our lives. To lie—even in defense of life—is to cheapen and weaken an essential pillar that sustains us. Kant knew that this example would draw critics, but he deliberately chose it anyway in order to demonstrate his conviction about the rightness of certain acts.

Perhaps the most well-known element of Kant's ethics is his explanation of the categorical imperative, laid out in his *Fundamental Principles of the Metaphysics of Ethics*, 1785. This intimidating phrase is just a fancy way of saying that some actions must always be taken and certain standards always upheld, such as truth-telling. The categorical imperative has two expressions, each of which Kant regarded as stating the same thing. In its first expression, the categorical imperative holds that a moral agent (i.e., a human being imbued with reason and a God-given soul) is free to act only in ways that he or she would permit any other moral agent to act. That is, none of us is able to claim that we are special and so entitled to privileges to which others are not also entitled. And in its second expression, the categorical imperative stipulates that we must treat others as ends in themselves and not just as means to our own ends. So we can never simply use people as stepping stones to our own goals and objectives unless we are also willing to be so treated by them.

Despite the enduring popularity of utilitarianism as an ethical system, deontology is probably even more pronounced within our moral sensitivity. Perhaps the best indicator of this is that most of us believe that a person's motives for acting ought to be taken into account when judging whether those actions are ethical or unethical. To witness a famous literary example of this, Victor Hugo made clear in *Les Misérables* that his protagonist, Jean Valjean, became a hunted man simply because he stole bread to feed his starving family. By Hugo's standards—and our own—Valjean truly committed no crime, and the tragedy of his life is that he must spend a significant part of it on the run from the dogged Inspector Javert.

Deontology, like all ethical systems, has its critics, and they zero in on its inflexibility regarding acts which may never be permitted, such as telling a lie, even if it is to save a life. Still, the system continues to inspire a devoted following of philosophers to this day. In the twentieth century, this was notably represented by the British ethicist W. D. Ross (1877–1971) and the American political philosopher John Rawls (1921–2002). Those who embrace deontology are typically attracted to its deep-seated sense of honor and commitment to objective values in addition to its insistence that all humans be treated with dignity and respect.

## The Ethics of John Rawls: Justice Theory

### John Rawls, 1921–2002

Though Rawls considered himself to be a utilitarian, he also acknowledged that his moral philosophy owed much to the social contract tradition represented over the past few centuries by John Locke and David Hume, among others. To complicate Rawls' philosophy even further, there was a bit of deontology exhibited in it, too, through Rawls' sentiment was that political freedoms and material possessions be distributed as fully and widely as possible precisely because it is the right thing to do.

Rawls is a uniquely American political philosopher, and this can be seen from his emphasis on political liberty. But this statement also speaks to his commitment to the utilitarianism of John Stuart Mill, the second-generation leader of that movement. Hence Rawls's assertion that he actually was a utilitarian at heart.

Whatever the influences on his thought, Rawls was the most significant political philosopher ever to emerge from the United States, and probably one of the most influential ethicists in the West over the past several centuries. He labeled his ethics to be "justice as fairness," and he developed it over nearly a lifetime. It was laid out formally in 1971 with the publication of his *A Theory of Justice*, a treatise of more than 550 pages. Still, preliminary drafts of what became this book were circulating within philosophical circles beginning in the late 1950s.

To be fair, Rawls insisted, human justice must be centered on a firm foundation comprising a first and second principle. The first principle declared that "each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty for others." These liberties included traditional ones such as freedom of thought and speech, the vote, a fair trial when accused of a crime, and the ownership of some personal property not subject to the state's seizure. Very few commentators have criticized this principle.

It is the second principle, however, which has incurred the loudest objections. It consisted of two sub-points: first, socio-economic inequality is permissible only to the degree that it brings the greatest benefit to the least-advantaged members of society. (Rawls labeled this the *difference principle*.) And, second, authority and offices are to be available to everyone competent to hold them. (Rawls called this *fair equality of opportunity*.) Additionally, the training to ensure that all may merit these offices absolutely must be available to all.

What Rawls actually advocated was an at-least minimal distribution of material goods and services to everyone, regardless of what inheritance he or she might come by or what work he or she might engage in. And this tenet has incurred a firestorm of controversy. Many have embraced what they term Rawls' egalitarian perspective on the ownership of property. Yet others have argued that he ignored the unlimited right to ownership of personal property specifically predicated on hard work and/or bequests from family. On the other hand, pure Marxists have dismissed this principle as not going far enough to ensure that sizable estates, as well as the means of production, be extracted from the clutches of plutocrats.

How might society move toward justice as fairness? Rawls proposed a thought exercise: If we all could imagine ourselves, before birth, to be in what he calls the Original Position, knowing only that we would be born but without knowledge of what sex, race, wealth, ethnicity, intelligence, health, or family structures we would be assigned, then we necessarily would ensure that these two principles would be observed. We would do so

because we would have absolutely no way of predicting the real-life circumstances which we would inherit post-birth and wouldn't want to risk being born into an impoverished or tyrannical environment.

The reason why we would be blind as to the world that each of us would inhabit would be because we would be cloaked by a "veil of ignorance" that would screen us from pre-knowledge of our circumstances once we were born—in other words, viewed from the original position, we wouldn't take the chance of suffering from political oppression or material poverty. Self-interest, then, would motivate us to insist that these minimum levels of political and material largesse would be the birthright of all.

Of course, we can't return to our pre-birth stage and so negotiate this sort of arrangement beforehand. Hence, the only way of creating this sort of world now would be to imagine that we were in the original position and deliberately build such a fair environment for all.

Given human nature and its inherent selfishness, is it reasonable to expect human beings to make a concerted effort to create the structures needed for justice as fairness? Perhaps not, but realize that Rawls was only following in the footsteps of Plato in his proposal to craft a perfect *polis*, or city-state, in *The Republic*. Therein Plato took all of the beauty and wisdom of the Athens of his day and imagined it without any of its limitations. Plato knew that this was an ideal, but he also realized that even an attempt to build such a city-state would produce what he regarded as much incalculable good.

## B Profiles in Business Ethics: Contemporary Thought Leaders

### Dan Bane, chairman and chief executive officer of Trader Joe's

With roots in Pasadena, California, the Trader Joe's brand is no stranger to ethical and sustainable business practices. At its origin, when it was a mere convenience store and still called Pronto Markets, founder Joe Coulombe opted to pay his employees at the median California family income rate. He did not want to exploit his employees the way he felt other large convenience chains did at the time.<sup>[i]</sup> After reading about the looming threats to the environment in 1970, Joe transformed his stores to become more health and environmentally conscious. Indeed, as far back as 1977, the growing chain of grocery stores began selling reusable "Save-A-Tree" canvas bags to its customers to encourage more environmentally friendly shopping practices.<sup>[ii]</sup>

These ethical principles, like the plastic lobsters it decorates its stores with and the Hawaiian shirts its employees wear, have become an integral and recognizable part of the Trader Joe's brand. With more than four hundred stores nationwide, this chain of grocery stores specializing in reasonably priced, high-end cheeses, wines, and organic foods is a beacon of ethical business practices in the grocery industry.

Joe Coulombe, the original Trader Joe, has long since given up his Hawaiian shirts and his role as leader of the company. Since 2001, Trader Joe's chief executive officer (CEO) has been Dan Bane. Bane has held firm on the ethical values established decades before. As part of his leadership approach, he often works in his stores so he can interact with customers and employees. He imagines the organizational principle at work at Trader Joe's as an inverted pyramid, where he as CEO sits at the bottom of the pyramid and the many employees and customers are at the top. He thinks of himself more like a conductor of an orchestra than a dictator shouting orders at his underlings.<sup>[iii]</sup>

Bane's Trader Joe's has seven core values: demonstrating integrity, being product-driven, producing customer "wow" experiences, challenging bureaucracy, seeking continuous improvement, treating the store as the brand, and being a national and neighborhood company.<sup>[iv]</sup> These core values are a roadmap for Bane and the company. As he sees it, it is his job to "make sure we stay on those [values] and preach those all the time."<sup>[v]</sup>

As an extension of its values, Trader Joe's tries to keep a close watch on its supply chain. In 2010, it was taken to task by environmental groups for selling seafood that had been harvested in environmentally unfriendly ways. Bane took this criticism to heart and pledged to do better. The company now sends its purchasers out to the very locations where they produce the product they sell. Bane wants to be certain that the suppliers are using practices that are consistent with Trader Joe's focus on environmental sustainability and even labor practices.<sup>[vi]</sup> As an added precaution, he also works with Greenpeace to keep the store shelves as green-friendly as possible.<sup>[vii]</sup>

i Beth Kowitt, "Meet the Original Joe," *Fortune*, August 23, 2010, <http://fortune.com/2010/08/23/meet-the-original-joe/>.

ii "Our Story: Timeline," Trader Joe's, <https://www.traderjoes.com/our-story/timeline> (accessed July 6, 2018).

iii "The Gathering (Oct. 2013) with Dan Bane," Claremont Lincoln University, <https://www.youtube.com/watch?v=CxUjovZDMbc> (accessed July 6, 2018).

iv Anthony Molaro, "The Trader Joe's Way for Libraries (a Manifesto Part III)," November 27, 2013, <https://informationactivist.com/2013/11/27/the-trader-joes-way-for-libraries-a-manifesto-part-iii/>

v "The Gathering (Oct. 2013) with Dan Bane," Claremont Lincoln University, <https://www.youtube.com/watch?v=CxUjovZDMbc> (accessed July 6, 2018).

vi "The Gathering (Oct. 2013) with Dan Bane," Claremont Lincoln University, <https://www.youtube.com/watch?v=CxUjovZDMbc> (accessed July 6, 2018).

vii Jim Lichtman, "2016 – Over Already?," *It's Ethics, Stupid!*, December 31, 2016, <https://ethicsstupid.com/accountability/2016-over-already/> (accessed July 6, 2018).

- Watch this [video of Dan Bane discussing his position on ethics as CEO of Trader Joe's](https://openstax.org/l/53DanBane) (<https://openstax.org/l/53DanBane>) to learn more.

## Mary T. Barra, chairman and CEO of General Motors

Mary T. Barra was born into a General Motors (GM) family in Michigan. Her father worked for the GM brand Pontiac for nearly four decades and one of her first jobs was working at a GM plant herself checking the fender panels and hoods of cars rolling off the line when she was only eighteen years old.

After earning a degree in electrical engineering from the General Motors Institute (now called Kettering University) in Flint, Michigan, she returned to the company to work as an engineer for Pontiac's new sporty two-seater, the Fiero. After a few years working as an engineer, GM then sent her to Stanford University on a fellowship to earn a master of business administration. From there, she climbed the executive ladder, working in a variety of positions until, in 2014, she was named CEO of General Motors Company, becoming the first woman ever to hold that position at a major international automaker.<sup>[viii]</sup>

When Barra took the reins of the company, the once-dominant automobile manufacturer had undergone a considerable decline in influence and prestige. The Great Recession hit the already struggling company very hard. As a result, it was compelled to seek bankruptcy and government support. It also went through some painful downsizing, even going so far as to discontinue the very Pontiac division Barra once worked for as a young engineer.

Just a few years later, GM appears to have turned those lemons into lemonade. It is now a healthy company with billions in cash on its books and billions in earnings. How it got to this healthy position is due in large part to Barra's efforts to transform GM's famously large and clumsy bureaucracy, as well as her push to encourage diversity of thought, innovative ways of dealing with problems, and working more closely with GM's many stakeholders.<sup>[ix]</sup>

But, this success aside, there were huge ethical bumps in the road that appeared right at the time Barra took control. In the spring of 2014, a string of news stories emerged regarding possible defects in the Chevy Cobalt, a GM compact car that started coming off the line in 2004. These stories eventually uncovered the fact that GM insiders had known of the defect and covered it up for a decade, even when they knew the defect was causing needless injuries and deaths.

The press attention was a mounting disaster for GM, and Barra's action was crucial. As the country condemned GM, Barra announced that "whatever mistakes were made in the past, we will not shirk from our responsibilities now and in the future. Today's GM will do the right thing."<sup>[x]</sup> Barra jettisoned the "cost culture" that had precipitated the defect and cover-up, and replaced it with a "customer culture." She also reformulated GM's code of ethics and published a booklet on the code called *Winning with Integrity*. Although some have pointed to some weaknesses in the code, it remains an important step for GM in encouraging personal integrity and empowering GM employees to speak up.<sup>[xi]</sup> These days, GM and Barra hope the tragic lapse in ethics the company is now safely in the rearview mirror.

- Watch this [video of Mary Barra discussing GM's response to the ignition switch recall](https://openstax.org/l/53MaryBarra) (<https://openstax.org/l/53MaryBarra>) to learn more.

viii Max Nisen, "How Mary Barra Went from Inspecting Fender Panels to GM's First Female CEO," *Business Insider*, December 10, 2013, <http://www.businessinsider.com/mary-barra-gm-ceo-career-bio-2013-12>.

ix Rick Tetzeli, "Mary Barra Is Remaking GM's Culture—and the Company Itself," *Fast Company*, October 17, 2016, <https://www.fastcompany.com/3064064/mary-barra-is-remaking-gms-culture-and-the-company-itself>.

x Phil LeBeau and Jeff Pohlman, "The Corporate Culture: Behind the Scenes at General Motors," CNBC, May 16, 2014, <https://www.cnbc.com/2014/05/16/the-corporate-culture-behind-the-scenes-at-general-motors.html>.

xi Marianne Jennings and Lawrence Trautman, "Ethical Culture and Legal Liability: The GM Switch Crisis and Lessons in Governance," [https://www.bu.edu/jostl/files/2016/08/JENNINGS\\_ARTICLE\\_MACROD-PDF.pdf](https://www.bu.edu/jostl/files/2016/08/JENNINGS_ARTICLE_MACROD-PDF.pdf) (accessed July 6, 2018).

## Marc Benioff, chairman, CEO, and founder of Salesforce

Marc Benioff took to computer entrepreneurship at an early age. At only 15 years old, he had already started his own software company. The profits from that company were enough to put him through college. When he graduated, he jumped right into a position at the software company Oracle, quickly climbing the corporate ladder and becoming the youngest vice president in the company's history within a few years.<sup>[xii]</sup>

Benioff eventually left Oracle to start his own software company, Salesforce. At its inception, Salesforce was a revolutionary approach to software, in that it delivers centrally hosted applications over the Internet to its clients. The bold move of charting a cloud approach to computing proved successful and, as of 2017, Salesforce was pulling in \$8.39 billion in revenue.

Rather than take his success for granted, however, Benioff has tried to use his wealth and position of power to support ethical causes, such as promoting sustainable growth and diversity. He is a big supporter of stakeholder capitalism as well.<sup>[xiii]</sup> This is an approach to business that attempts to consider the interests of all major stakeholders rather than catering merely or disproportionately to the investors.

And Benioff has tried to put his money where his mouth is. Since 1999, he has maintained what he calls his "1-1-1 model." This is a company program that donates 1% of equity, 1% of employee time, and 1% of products to nonprofit organizations operating in locations where his companies do business. According to Benioff, this is just one way for him to demonstrate that "the business of business is improving the state of the world."<sup>[xiv]</sup> Another way is by ensuring that there is pay equity between men and women working in the same positions in his company. When Benioff realized a few years ago that men and women were not being paid at a comparable rate, he took action to change this.<sup>[xv]</sup>

Beyond philanthropy and striving for equity in his company, Benioff recognizes that technology innovators like himself need to take initiative in ensuring that business is done ethically. He knows that the volume of innovation coming out of the industry makes it difficult to manage, and he does not trust individual CEOs and companies to always do the ethical thing. "We're moving rapidly into a new world where we know the government is going to have to be involved in these next-generation technologies—like AI [artificial intelligence], biotech, etc.—which are all so new, and could have unintended consequences," he said in 2018. To manage the disruption that comes with these changes, he suggested it might be necessary to create a regulatory government body not unlike the Food and Drug Administration, except for technology.<sup>[xvi]</sup>

Recently, his ethical approach to business has led him to speak out on the autocratic style of many other leaders in Silicon Valley. Speaking in Davos, Switzerland, in 2018, Benioff challenged leaders in technology to step back from the all-too-common position he summarized as, "I'm the entrepreneur and I am in charge no matter what happens." Citing the infamous aggressive leadership style of Uber's founder and former CEO, Travis Kalanick, he warned against adopting this approach. Instead, he proposed they embrace the concept of trust.<sup>[xvii]</sup> "It's a culture issue. What is the most important thing in your company—is it trust or is it growth? If anything trumps trust, we are in trouble."<sup>[xviii]</sup>

xii Matt Weinberger, "The Rise of Marc Benioff, the Flashy Billionaire Founder of Salesforce," *Business Insider*, March 17, 2016.

<http://www.businessinsider.com/the-rise-of-salesforce-ceo-marc-benioff-2016-3>.

xiii Rana Foroohar, "Marc Benioff: Taking on Silicon Valley's Noxious Culture," *Financial Times*, January 21, 2018, <https://www.ft.com/content/117c23d2-fb6a-11e7-9b32-d7d59aace167>.

xiv "Pledge 1%," Salesforce.org, <http://www.salesforce.org/pledge-1/> (accessed July 3, 2018).

xv Lesley Stahl, "Leading by Example to Close the Gender Pay Gap," *60 Minutes*, April 15, 2018, <https://www.cbsnews.com/news/salesforce-ceo-marc-benioff-leading-by-example-to-close-the-gender-pay-gap/>.

xvi Rana Foroohar, "Marc Benioff: Taking on Silicon Valley's Noxious Culture," *Financial Times*, January 21, 2018, <https://www.ft.com/content/117c23d2-fb6a-11e7-9b32-d7d59aace167>.

xvii David Reid and Andrew Ross Sorkin, "Marc Benioff Launches Tirade against the Leadership Style of Silicon Valley," CNBC, January 23, 2018, <https://www.cnbc.com/2018/01/23/davos-2018-marc-benioff-launches-tirade-against-the-leadership-style-of-silicon-valley.html>.



- Watch this [video of Marc Benioff discussing the crisis of trust in Silicon Valley \(https://openstax.org/l/53MarcBenioff\)](https://openstax.org/l/53MarcBenioff) to learn more.

## John C. (Jack) Bogle, founder of The Vanguard Group

Born months before the infamous Black Thursday stock market crash of 1929, Jack Bogle knows from experience the social and economic cost of unethical and unregulated stock market speculation. In the depression that followed the crash, his family lost much of its wealth, and his father sunk into a destructive alcoholism that tore the family apart. He and his twin brother were compelled to enter the workforce at early ages, holding menial jobs like delivering papers and waiting on tables.<sup>[xix]</sup> The experience was formative for Bogle, who admits he feels sorry for those who do not grow up in circumstances where they have to work for what they need. Despite earning a comfortable fortune in managing mutual funds, Bogle remains reluctant to spend money on himself, believing that extravagance is a weakness that exposes him to unnecessary risk.<sup>[xx]</sup>

After graduating with a degree in economics from Princeton University in 1951, Bogle went directly into the banking and investment industries. He quickly demonstrated an aptitude for making wise investments and rose up the ranks at Wellington Fund, eventually becoming the chairman in 1970. In 1975, he founded The Vanguard Group, an investment firm based on the principle that fund shareholders own the funds and, therefore, own Vanguard. There are no outside owners seeking profits at Vanguard.<sup>[xxi]</sup>

This simple but revolutionary founding ethical standard has earned Bogle accolades from thought leaders around the world. Economist and former vice chair of the Federal Reserve, Alan S. Blinder, for example, has celebrated Bogle's "relentless voice, sharp pen, and indefatigable energy . . . prodding the mutual fund industry in particular, and the financial industry more generally, to embrace higher business, fiduciary, and ethical standards."<sup>[xxii]</sup>

Beyond establishing his client-centered approach to money management, Bogle has become an important voice advocating for ethical business practices. Too often, Bogle complains, CEOs in the investment business are compelled to make bets in the expectations market rather than to do what they are supposed to and build real corporate value. The result of this type of thinking and practice has been to distort the financial system. Instead, Bogle proposes following simple ethical guidelines such as seeking higher profits for investors rather than managers, treating the client as an owner rather than a customer, and limiting risk. These guidelines have worked for him and have made a lot of money for his clients. It turns out, he contends, that "good ethics is good business."<sup>[xxiii]</sup>

- Watch this [video of John Bogle discussing the importance of ethics in leadership \(https://openstax.org/l/53JohnBogle\)](https://openstax.org/l/53JohnBogle) to learn more.

xviii "Marc Benioff: Trust Has to Be the Highest Value in Your Company," Salesforce.com, <https://www.salesforce.com/company/news-press/stories/2018/012318/> (accessed July 3, 2018).

xix Jonathan Berr, "Vanguard Founder John Bogle Sees No Good Alternatives to Indexing," Aol.com, February 13, 2010, <https://www.aol.com/2010/02/13/vanguard-founder-john-bogle-sees-no-good-alternatives-to-indexin/> (accessed July 5, 2018).

xx Chris Taylor, "Me and My Money: Jack Bogle," Reuters, September 11, 2012, <https://www.reuters.com/article/us-column-taylor-bogle/me-and-my-money-jack-bogle-idUSBRE88A0L120120911>.

xxi "A Remarkable History: Our Heritage," Vanguard, <https://about.vanguard.com/who-we-are/a-remarkable-history/> (accessed July 5, 2018).

xxii Taylor Larimore, "What Experts Say about Jack Bogle," Bogleheads.org, April 17, 2015, <https://www.bogleheads.org/forum/viewtopic.php?t=163903>.

xxiii John C. Bogle, "Ethical Principles and Ethical Principals," a speech delivered at The Johnson School at Cornell University, November 11, 2010, <http://johnnbogle.com/wordpress/wp-content/uploads/2006/02/Cornell-11-11-10.pdf> (accessed July 5, 2018).

## Yvon Chouinard, founder, and Rose Marcario, CEO and president of Patagonia Works

Yvon Chouinard was introduced to rock climbing almost by accident. After taking an interest in falconry, an adult decided to teach the young Chouinard to rappel down a cliff to reach the cliff-side falcon nests. But it was not long before Chouinard was teaching himself how to climb up in the same way. Thus began a life-long love affair with climbing around the world. To support his climbing lifestyle, he learned to make and sell steel climbing pitons, the small metal spikes with an eyelet that climbers drive into the rock to guide their rope.

The piton business proved successful and eventually became Chouinard Equipment, the largest supplier of climbing hardware in the United States. But with this success, Chouinard was suddenly faced with his first ethical dilemma. As climbing became more popular, more pitons were driven into the rock, sometimes causing great damage. This was something Chouinard's internal sense of environmentalism could not tolerate, so he made the ethical move to phase out the pitons and sell more environmentally friendly aluminum chocks instead. Around this same time, Chouinard began experimenting in the active sportswear business. Soon the clothing line outpaced the gear line. The Patagonia clothing line was born.

Despite Chouinard's growing success, his interest in environmentalism never flagged. Indeed, if anything, it increased. The 1970s, 1980s, and 1990s were decades of increasing public awareness about the dangers of environmental neglect and the growing threat of climate change. It was at this time that terms like "acid rain," "the ozone layer," "global warming," and "deforestation" became common rallying cries for environmentalists around the world. Chouinard wanted to make Patagonia part of the movement for change. Beginning in 1986, Patagonia committed to donating 10% of its annual profits to environmental nongovernmental organizations (NGOs). Two years later, Patagonia led its own effort to save Yosemite Valley from overdevelopment.

This concern with environmentalism has continued with the coming on board of Rose Marcario as CEO in 2012. She shares Chouinard's goal of applying more ethical and environmentally friendly protection methods. Using solar energy and radiant heating in their plants and retail stores, Patagonia has been able to reduce its carbon footprint. It also strives to use recycled content in its clothing and to exclude dyes that require toxic ingredients. Patagonia also switched to using only organic cotton for its cotton products to reduce its reliance on chemical pesticides. Recently, Marcario has taken up environmental activism. Alongside Chouinard, Marcario decided to protest attempts to rescind the national monument designation of Bears Ears in southeastern Utah, first by withdrawing Patagonia from the annual Outdoor Retailer trade show in Salt Lake City in February 2017, and then by suing the Trump administration for its decision to reduce the monument's size.<sup>[xxiv]</sup> Like Chouinard, Marcario believes strongly in maintaining public lands free of private development. Many decades after it was founded as an outdoor clothing line, Patagonia's policies remain consistent with the environmental ethics of its founder.

- Watch this [video of Yvon Chouinard discussing his position on environmentalism in business](https://openstax.org/l/53YvonChouinard) (<https://openstax.org/l/53YvonChouinard>) to learn more.

## Tony Hsieh, CEO of Zappos

Born to Taiwanese immigrants in Illinois and raised largely in San Francisco's Bay Area, Tony Hsieh excelled at school as a child. He developed an interest in computers, which helped get him accepted to Harvard University, from which he graduated in 1995 with a degree in computer science. Upon graduation, he jumped right into the corporate world by taking a position at Oracle, a large database and software company.

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xxiv David Gelles, "Patagonia v. Trump," *New York Times*, May 5, 2018, <https://www.nytimes.com/2018/05/05/business/patagonia-trump-bears-ears.html>.

At the time, Hsieh felt he had made it. His hard work had paid off and he was now perched firmly on the ladder to corporate and business success. Five months later, however, Hsieh abruptly quit. “I did not want to carry on with my job just because it paid me a handsome salary. The job lacked creativity and the corporate environment wasn’t my style.”<sup>[xxv]</sup>

Within a few months, Hsieh and another former Oracle employee, Sanjay Madan, launched their own business from the stuffy confines of their apartment. The company was called LinkExchange, an innovative advertising cooperative that used the power of the emerging Internet to amplify advertising. The company proved to be a huge success. Within two years, it had acquired nearly half a million members and displayed ten million advertisements per day. Microsoft bought it in 1998 for \$265 million.

After his success with LinkExchange, Hsieh was encouraged to become CEO of the newly created Zappos.com, an Internet shoe retailer. As CEO, Hsieh has embraced ethical behavior through what has been termed “radical transparency,” where he openly shares his schedule and even his personal and company priorities. Hsieh believes strongly that this transparency helps build trust with his employees and other stakeholders.<sup>[xxvi]</sup>

Beyond transparency, Hsieh’s ethical approach has created a strong office culture that encourages team unity, camaraderie, and employee empowerment. The organizational atmosphere at Zappos rejects hierarchy and management, and encourages creativity, even wackiness. And Zappos has extended this ethical approach to community involvement as well. Hsieh dumped his heart, soul, and \$350 million of his own money into an urban revitalization project of the small part of Las Vegas surrounding the company. He has transformed it into vibrant and hip neighborhood of vinyl record shops, independent bookstores, trendy restaurants, and free live music. The company and its surrounding neighborhood are now almost seamless. As a result, periods of work and periods of play in the company also intermingle.<sup>[xxvii]</sup> In this way, the company is now a manifestation of Hsieh’s bold rejection of the stiff corporate culture he rejected at Oracle. And it may very well transform corporate culture entirely.

- Watch this [video of Tony Hsieh discussing the problem with some corporate culture](https://openstax.org/l/53TonyHsieh) (<https://openstax.org/l/53TonyHsieh>) to learn more.

## Kim Jordan, CEO of New Belgium Brewing Company

In 1988, while working in Europe as an electrical engineer, Jeff Lebesch took a beer-tasting trip through Belgium riding atop a fat-tire bicycle. A couple years later he met Kim Jordan and they soon married. Both being beer aficionados, they could smell a great business opportunity bubbling up from Jeff’s experience. Sensing that the famously bold flavors of Belgian beer were exactly what the American beer market lacked and needed, Jeff and Kim got to work testing methods and recipes in their Fort Collins, Colorado, basement. By 1991, New Belgium Brewing was born.<sup>[xxviii]</sup>

The brewery emerged at just the right time: Young Americans were just beginning to expand their general appreciation for craft brews. Over the next nine years, the company grew steadily. Then, in 2000, Jordan decided to grow the company in a new and radically different way. Inspired by her Quaker background, she

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xxv Udhaw Kumar, “Serial Entrepreneur Tony Hsieh: Quitting My Dream Job at Oracle Was the Best Decision,” *BrainPrick*, June 21, 2012, <http://brainprick.com/serial-entrepreneur-tony-hsieh-quitting-my-dream-job-at-oracle-was-the-best-decision/>.

xxvi David Henderson, “Tony Hsieh, a Leader Grounded in Ethics and Collaboration,” *davidhenderson.com*, <https://www.davidhenderson.com/2014/03/21/tony-hsieh-a-leader-grounded-in-ethics-and-collaboration/> (accessed June 28, /2018); David Rodic, “What I Learned from Studying Zappos CEO Tony Hsieh’s Schedule for a Year,” *Business Insider*, January 9, 2016, <http://www.businessinsider.com/what-i-learned-from-studying-zappos-ceo-tony-hsiehs-schedule-2016-1>.

xxvii Roger D. Hodge, “First, Let’s Get Rid of All the Bosses: A Radical Experiment at Zappos to End the Office Workplace as We Know It,” *The New Republic*, October 4, 2015, <https://newrepublic.com/article/122965/can-billion-dollar-corporation-zappos-be-self-organized>

xxviii Tanza Loudenback, “Why the Maker of Fat Tire Bucked the Trend and Became 100% Owned by Its Workers,” *Business Insider*, June 13, 2016, <http://www.businessinsider.com/new-belgium-brewing-kim-jordan-2016-6>.

started New Belgium's employee stock ownership program (ESOP). She had to battle the many advisers and accountants that came out against the move, but Jordan thought it was an important ethical move to give the employees a stake in the business.<sup>[xxix]</sup>

By 2012, Jordan had sold her last piece of ownership in the company to the ESOP. She knows that had she held onto this piece, she would have made even more money. But it was not necessarily money she was after. She wanted her employees to feel they were a part of the company and had a say in its operations. She felt this was the ethical and neighborly thing to do. According to Jordan, "We spend a lot of time at this thing called work, and if it can't feel warm and like everyone you see every day has your back, then I think that's a real tragedy." To Jordan's great credit, the ESOP has proven to be a great business success. In 2015, the company became the fourth largest craft brewer, selling nearly a million barrels in that year and pulling in \$225 million in sales.<sup>[xxx]</sup>

And Jordan's ethical principles have been a driving force in the business even beyond transforming her employees into joint owners. New Belgium is particularly interested in demonstrating that it is environmentally safe and sustainable. For example, in 1998, it became the first U.S. brewer to power its entire operation with wind-produced electricity. In 2002, it completed a biological wastewater facility that would clean the water left over by the brewing process before releasing it back into the environment. It also uses natural draft cooling and swamp-cooling systems rather than the less environmentally friendly glycol-cooled systems for its cold storage.<sup>[xxxi]</sup>

Nor is Jordan content with only her environmental achievements. New Belgium Brewing is also a leader in philanthropy. It donates \$1 to charities in its distribution territory for every barrel of beer it sells. Over the years, this has translated into millions of dollars in donations, and in 2018, the company projects that it will donate more than \$900,000 to projects across the country.<sup>[xxxii]</sup> It also manages a volunteer corps it calls the Beer Scouts, which finds and helps supply volunteers for causes aligned with New Belgium's values.<sup>[xxxiii]</sup> Finally, it collaborates with a number of organizations supporting business ethics and nature conservation, such as Conservation Colorado, the Natural Resources Defense Council, and the American Sustainable Business Council.<sup>[xxxiv]</sup>

- Watch this [video of Kim Jordan discussing New Belgium's position on sustainability \(https://openstax.org/l/53KimJordan\)](https://openstax.org/l/53KimJordan) to learn more.

## Indra Nooyi, chairman and CEO of PepsiCo

What might a company like PepsiCo, known for selling sugar-filled sodas and junk food, teach us about ethical business practices? It might actually teach us quite a lot if CEO Indra Nooyi has anything to say about it.

Born in India and having immigrated to the United States at a relatively young age, Nooyi excelled at school and moved right into the business world after graduating from Yale University. In 1994, Nooyi came to PepsiCo

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xxix Chloe Sorvino, "New Belgium's Kim Jordan Talks about What It Takes to Be America's Richest Female Brewer," *Forbes*, July 16, 2016, <https://www.forbes.com/sites/chloesorvino/2016/07/16/new-belgiums-kim-jordan-talks-what-it-takes-to-be-americas-richest-female-brewer/#76bc9c48b6d3>; Dinah Eng, "New Belgium's Kim Jordan Is Tasting Success in Craft Brewing," *Fortune*, June 12, 2014, <http://fortune.com/2014/06/12/new-belgium-kim-jordan/>.

xxx Chloe Sorvino, "New Belgium's Kim Jordan Talks about What It Takes to Be America's Richest Female Brewer," *Forbes*, July 16, 2016, <https://www.forbes.com/sites/chloesorvino/2016/07/16/new-belgiums-kim-jordan-talks-what-it-takes-to-be-americas-richest-female-brewer/#76bc9c48b6d3>.

xxxi "New Belgium Brewing Wins Ethics Award," *Denver Business Journal*, January 2, 2003, <https://www.bizjournals.com/denver/stories/2002/12/30/daily21.html>.

xxxii "Grants Program," New Belgium, <https://www.newbelgium.com/sustainability/community/grants> (accessed July 6, 2018).

xxxiii "New Belgium's Beer Scouts," New Belgium, <https://www.newbelgium.com/sustainability/community/beerscouts> (accessed July 6, 2018).

xxxiv "Policy and the Craft Beer Industry," New Belgium, <https://www.newbelgium.com/sustainability/community/policyandindustry> (accessed July 6, 2018).

as senior vice president for strategic planning. In 2006, she was promoted to president and CEO, and assumed the role of chairman in 2007. In August 2018, Nooyi announced she would be stepping down as CEO in October 2018 and leaving the position of chairman in early 2019. As CEO, she has tried to push PepsiCo in new and more ethical directions.

Nooyi devised a sustainable-growth agenda for the company based on three pillars. The first pillar has to do with health and well-being. Through acquisitions, mergers, and other internal changes, Nooyi has tried to transform the Pepsi brand into more of an agent for change and healthy living. She does not want the company to be known merely as the junk food and sugary soda company. She believes in providing options to consumers and in making sure that PepsiCo's traditional products are not unnecessarily unhealthy.

The second pillar is a focus on the environment. Nooyi has driven PepsiCo to take notice of its reliance on exhaustible resources like water and she has led efforts to encourage greater energy conservation and recycling efforts. These are issues that are very personal to Nooyi, who grew up in a water-distressed city in India. She wants to use PepsiCo's great resources not only to find ways to produce beverages that conserve water better but also to pass on this technology to local farmers so they can contribute to this process.

The third pillar is about empowering people who typically lack power. She has promoted outreach to women and minorities so they feel comfortable and supported in the company. To do this, she has created daycare centers in the bottling plants, added maternity and paternity leave as company benefits, and even made religious accommodations. As she sees it, she wants to make PepsiCo a place "where every employee can bring their whole self to work and not just make a living but also have a life."

Nooyi is a champion of what she calls "Performance with Purpose." By this she means recognizing that a company's performance in the marketplace is intimately connected to seeking ethical and sustainable approaches. Being a steward of the environment and encouraging tolerance and inclusion are not secondary functions for Nooyi; they are inherent in the company's approach to business. "If we don't focus on the environment, our cost will be too high. . . . and if we don't have the best and brightest people, we won't be able to deliver performance."

Performance with purpose is different from mere corporate social responsibility. As she explains, "Corporate social responsibility is about spending the money you make. You make money and then you give it to a couple of charitable causes in some distant lands and feel good. This is not a feel-good program. This is who we are. You talk about ethics. The ethics of our company is performative purpose. The ethics of our company is the deep-seated belief that large companies can actually make a difference to societies in which we operate."

- Watch this [video of Indra Nooyi delivering the keynote address at the World's Most Ethical Companies Gala in 2018 \(https://openstax.org/l/53IndraNooyi\)](https://openstax.org/l/53IndraNooyi) to learn more.

## Jostein Solheim, CEO of Ben & Jerry's

Cherry Garcia, Wavy Gravy, and Chubby Hubby are just a few of the wacky flavors churned out by the four-decades-old ice cream company, Ben & Jerry's. These quirky names are a reflection of the company's unique business style, something Jostein Solheim signed on to when he agreed to become CEO of the company in 2010.

Ice cream was nothing new to Solheim. Before becoming CEO, he had worked for Unilever's many ice cream brands like Breyers, Klondike, Popsicle, and Good Humor. Indeed, the Norway native calls himself "an ice cream guy." And he is wildly enthusiastic about maintaining Ben & Jerry's iconic weirdness, even celebrating Unilever's acquisition of the company by eating a full pint of Chunky Monkey.<sup>[xxxv]</sup>

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xxxv "Division President: Jostein Solheim, Ben & Jerry's Homemade," *Food Processing*, January 26, 2011, <https://www.foodprocessing.com/ceo/jostein-solheim/> (accessed July 6, 2018).

But as Solheim knows, Ben & Jerry's is more than just an ice cream chain; it is also an organization dedicated to making a social impact. The founders of the Vermont-based company, Jerry Greenfield and Ben Cohen, transformed their ice cream-making success into a values-led social mission by supporting a host of ethical positions on such issues as responsible manufacturing, fair trade, and non-genetically modified organisms labeling.<sup>[xxxvi]</sup> And Solheim has embraced this important component too. He has led the company to establish public positions on racial justice in the United States, environmental activism, and even private prisons. "What inspires me," Solheim said, "is what social impact can we create with this business."<sup>[xxxvii]</sup>

The activism Solheim supports through Ben & Jerry's springs from his understanding of the stakeholders in his company. For example, he refers to the consumers as "fans." "They're more than just customers," he explains. "They are bigger stakeholders in our company and we have a responsibility to them beyond a basic transactional exchange of product." And the same goes for the suppliers, farmers, and NGO partners. "They all connect in a model we called 'linked prosperity,' which is circular and reinforcing."<sup>[xxxviii]</sup>

It is Solheim's vision to see Ben & Jerry's as a leader in ethical change. Making a values-led company that embraces the concept of linked prosperity also highly profitable is major step in transforming the standard business model. He believes it is inevitable that other businesses will catch on and recognize they, too, have ethical obligations to uphold community values and recognize how their work affects the larger global community.<sup>[xxxix]</sup>

- Watch this [video of Jostein Solheim discussing his interpretation of conscious capitalism \(https://openstax.org/l/53JSolheim\)](https://openstax.org/l/53JSolheim) to learn more.

xxxvi "Jostein Solheim," Conscious Capitalism, <https://www.consciouscapitalism.org/people/jostein-solheim> (accessed July 5, 2018).

xxxvii Bill Snyder, "Jostein Solheim: Do Things You Passionately Believe In," Stanford Business, April 4, 2017, <https://www.gsb.stanford.edu/insights/jostein-solheim-do-things-you-passionately-believe>.

xxxviii "Jostein Solheim of Ben & Jerry's: Empathy Is Not Simply the 'Flavor of the Month'," *Medium*, <https://medium.com/change-maker/jostein-solheim-of-ben-jerry-s-empathy-is-not-simply-the-flavor-of-the-month-fc8c44242831> (accessed July 6, 2018).

xxxix "Jostein Solheim of Ben & Jerry's: Empathy Is Not Simply the 'Flavor of the Month'," *Medium*, <https://medium.com/change-maker/jostein-solheim-of-ben-jerry-s-empathy-is-not-simply-the-flavor-of-the-month-fc8c44242831> (accessed July 6, 2018).





## C A Succinct Theory of Business Ethics

### The Nature of Business Ethics

Business ethics should be grounded in *deontology* more than in *utilitarianism*. That is, the ends should not typically be considered sufficient justification for the means when it comes to framing a business strategy. Rather, it is the means that ennoble the ends. Utilitarianism, as a consequentialist theory and when applied to business, emphasizes the greatest good (or profit) for the greatest number of shareholders. However, this may be inappropriate criterion for determining what is truly ethical in the conduct of business because business morality should not be centered only on calculations of profit or loss. Deontology, on the other hand, focuses on the motives and reasons why entrepreneurs engage in business and the methods that they implement in doing so. Ultimately, both theories have a place in business practice, but a preference should be shown to deontology.

The honor or shame that accrues to business as a profession is directly attributable to the ethical practices of its leaders. So, if business as a whole has an unsavory reputation, it is a likely consequence of the practices in which management engages. And while this reputation is not easily changed, it can be improved through a diligent commitment by management to do so.

To pit *ethics* against *profits* and insist that a business leader must choose between the two is a false dichotomy. In truth, successful business can be practiced in ethical fashion. Further, ethical conduct by a business will naturally draw the loyalty of many consumers and clients. Not only that, but employees and other stakeholders of that business will also approve, and their relationship to the company might become even closer as a result.

Similarly, it diminishes ethics to insist that it is useful only for keeping business leaders out of jail and avoiding opprobrium, such as through social media. Ethical behavior *can* keep executives safe from indictment, but it also accomplishes much more. Ethical business practices honor the profession and endow it with integrity and credibility.

When it comes to hiring for and promoting within the workplace, merit and commitment should be assigned the highest value. At the same time, *merit* should not be seen as a code word for discrimination; nor should it be disparaged. Business ethics applies to all people equitably in the sense that race, ethnicity, creed, sex, sexual orientation, age, and disability all are irrelevant to the abilities that they bring to the workplace.

### The Nature of the Ethical Business Leader

An ethical business leader appreciates the existence of multiple stakeholders and accepts responsibility for all of them. These include employees, shareholders, customers/clients, vendors, suppliers, wholesalers, retailers, and the community as a whole within which a corporation resides. While not all stakeholders are *equal* in significance, they nonetheless *all are significant*.

Ethical entrepreneurs are good stewards of the social and physical environments where they do business. They safeguard the earth at the same time that they protect human capital.

In addition, the ethical executive engages in both private and corporate philanthropy. Thus, he or she is willing to commit a portion of the funds of his or her organization, as well as that of his or her personal wealth, to worthy charitable community organizations.

Corporate professionals earn respect through the manner in which they lead and conduct business. There is no positive correlation between the trappings of their success—the homes they own, the cars they drive, the

clothes they wear—and their character as human beings. The limousines and jets that they commandeer and the vacation resorts that they frequent are externalities completely unconnected with what Martin Luther King, Jr., called “the content of their character.” If anything, excessive material possessions blind business leaders to their most important managerial tasks.

In truth, leaders who are in business only for the salary and attending perquisites have found the wrong profession, for they will constantly endure frustration in bearing the responsibilities that come with the privileges.

And while successful executives are compensated more than their subordinates, it should not be many multiples more. The less disparity that exists between the highest- and least-paid members of a company, the greater the level of teamwork and commitment that will prevail among all. In short, people will work harder and make a deeper commitment to a company that has a leadership team with which they can identify.

Additionally, an MBA is not a license for arrogance on the part of its holder. Ethical leaders are justifiably proud of their business acumen, but to lord it over others risks sacrificing their effectiveness as managers.

Sometimes the least educated member of a firm may know the most about sustaining the dignity and self-worth of everyone on the team and, therefore, may be the most essential employee for the company to have for that purpose.

An accomplished executive is not insulated from his or her employees and should not be a “sir” or “ma’am” to subordinates, but rather a partner or colleague or coworker, and so, a concerned boss.

In this same way, ethical leaders are welcomed and admired instead of feared and resented. Respect from colleagues, employees, and competitors ultimately cannot be compelled. Instead, it flows naturally from the just and fair ways in which leaders manage and compete.

Worthy managers sustain the dignity and self-respect of all who surround them. This at once acknowledges the basic humanity of those with whom they work and simultaneously inspires them to contribute their best effort.

Similarly, the best business leaders take pride in the accomplishments of the business and its employees. This success may never be accorded directly to managers themselves, but employees assuredly recognize those bosses who help them accomplish their best. Further, it is precisely this kind of leader for whom most employees will be motivated to go above and beyond merely what is required of them on the job.

In short, ethical business executives become the enablers of professional success among their colleagues. This is not in the sense of being a slave to the business and its employees, but rather placing the interests of the firm and one’s coworkers above those of oneself. When this occurs, the enterprise succeeds in a way in which all associated with it may take pride. This is actually the essence of the best business leadership.

A goal of a more egalitarian workplace—one in which managers and employees respect one another—is a renewed sense of loyalty among all who are there. Too often today we witness distrust along the management/labor divide. Each side accuses the other of harboring no commitment except to itself. Unfortunately, the accusation frequently is true. One way to dispel it is for business leaders to take the first steps in restoring the broken sense of obligation that owners and employees owe each other. This may be the most important task of business leadership now and going forward.

# Answer Key

## Chapter 1

1. A
2. True
3. Behaving ethically requires that we meet the mandatory standards of the law and then go above and beyond them to recognize that an action may be legal but we personally may consider it unacceptable. Ethical reasoning often is more topical than law and reflects the changes in consciousness that individuals and society undergo. Often, ethical thought precedes and sets the stage for changes in the law.
4. Normative ethical theories are philosophical theories based on reason that tell individuals how they ought to behave. Descriptive ethical theories are based on scientific evidence describing how people tend to behave in a particular context. The theories discussed in this book are normative.
5. B
6. False. In Friedman's view, a company's social responsibility consists of enhancing stockholder value.
7. CSR is the practice of viewing a business within a broader context, as a member of society with certain implicit social obligations, rather than considering the maximization of shareholder wealth as a company's sole purpose and objective.
8. In three columns, list stakeholders in order of perceived priority, their perceived interests, and the likely impact of the business decision on them. This will aid comprehension of the decision's impacts as well as provide justification for the course of conduct ultimately chosen.
9. The ethical behavior of managers has a positive influence on the value of a variety of components affecting the company's overall goodwill, including its brand, its workforce, and its customer relationships. Positive goodwill generated by ethical business practices, in turn, generates long-term business success.
10. True
11. D
12. Having a single ethical standard maximizes ethical behavior no matter who the other party is and supports an internally consistent rule of behavior toward all family, friends, customers, clients, and others with whom we interact.

## Chapter 2

1. A
2. B
3. True
4. True
5. Because virtue ethics emphasizes individual character and conscience, it can have a tremendous influence on organizational culture by encouraging individuals to stand up for sound, ethical, and responsible business practices.
6. C
7. D
8. True
9. False. Confucius's hope for reform was the five great relationships that support Chinese society: parent/child, husband/wife, elder/junior sibling, master/apprentice, and ruler/subject.
10. Wholeheartedness and sincerity require not just competence but compassion when dealing with stakeholders and making executive decisions. Reflecting the overall Confucian concern for balance, they temper initiative and boldness with self-regulation.
11. A
12. B
13. True
14. False. In Confucian ethics, the locus of ethics and moral decision making was the family rather than the individual. The most important value was the development of humanity and putting an end to anarchy, and this was done best in the context of the family.
15. D
16. A
17. True
18. Utilitarianism is pervasive in contemporary business practice, management theory, and decision-making through cost-benefit analysis. Decisions are often made based on the "bottom line" of profit, numbers of stakeholders affected, or overall utility to the organization. Utilitarianism is reflected in this abiding emphasis on efficiency, often to the neglect of other factors.
19. Certainly there exists a need today to engage in political debate that includes all sides of an issue in

respectful ways. Mill's teaching on the role of free speech in society can be a starting point and a reminder of the importance of civil debate and freedom.

20. C

21. True

22. True

23. Utilitarianism is a consequentialist philosophy dependent solely on outcomes. Although focused on rights, Mill's utilitarianism also depends on results. Deontology is concerned with motive, duty, and one's obligation to act regardless of circumstances or outcomes.

24. Because Kantian ethics is about treating people not as means but as ends, this philosophy can influence nearly every aspect of business, from research and development to production, manufacturing, marketing, and consumption. It may be difficult to implement, however, because many businesses are focused on efficiency and production to the near-exclusion of other factors.

25. C

26. B

27. True

28. True

29. Rawls's theory has been called radical because it redistributes goods and services without regard for extenuating circumstances or historical context. It also has been accused of stifling enterprise, innovation, and investment.

## Chapter 3

1. D

2. False. Amenities are additional resources made available to employees above and beyond wages, salary, or other standard benefits or obligations.

3. Regardless of the company or brand selected, responses should include some of the following: customers, clients, employees, shareholders, communities, government, media, and possibly the environment and other abstract concepts that represent resources or concerns of many people.

4. A

5. C

6. The normative approach is the fundamental basis of stakeholder theory and argues that stakeholders are ends unto themselves rather than means to an end. Thus, they have inherent value and cannot be looked at merely as instruments or as functional parts in an economic engine intended solely to generate profit for stockowners. That said, the instrumental and descriptive approaches also have their role in helping us to understand stakeholders and are mutually supportive of the normative approach.

7. The high-power, high-interest quadrant is most important because it represents stakeholders who both are highly interested in their relationship with the firm and have a high level of power or influence in the relationship.

8. C

9. True

10. The three components are people, profit, and planet.

11. The California Act requires businesses that operate in California to describe for consumers all components and activities of their supply chains.

12. True

13. C

## Chapter 4

1. False. Social responsibility does not mean lower profitability, as the returns on social index funds have shown.

2. False. Milton Friedman argued that shareholders should be able decide for themselves what social initiatives to donate to or to take part in, rather than having a business executive or government decide for them.

3. A

4. D

5. One benefit is that consumers may prefer to purchase products from a socially responsible company. A second benefit is that CSR may attract more investors, or shareholders, who are interested in investing in the company.

6. Earth jurisprudence is an interpretation of law and governance based on the belief that society will be sustainable only if we recognize the legal rights of Earth as if it were a person.

7. B

8. D

9. True

10. C

11. False. Legal restrictions exist to limit the revolving door effect, but most relate only to direct government contracting and/or lobbying.
12. True
13. C
14. C
15. B
16. The First Amendment and free speech: The case was a challenge to the federal elections law limiting the amount of money a person or business can spend in support of a political candidate.

## Chapter 5

1. A
2. Enculturation is the process by which humans learn the characteristics, values, and rules to participate in a society more generally, whereas acculturation is the introduction of the values, worldview, philosophy, or practice of one culture into another.
3. As an extreme preoccupation with buying and owning, consumerism runs counter to the new sensitivity to ethics and human flourishing in business, because it defines people not by their humanity but by their purchasing power.
4. False. Cultures often adapt to business rather than the other way around. As an example, U.S.-style jeans and baseball caps can now be found globally.
5. A
6. False. Certain core ethics exist throughout cultures and time, although they may manifest in different ways.
7. False. The UN Global Compact is a voluntary set of standards; it is not legally binding on countries or corporations.
8. *Shlensky v. Wrigley* gave boards of directors and management more latitude in determining how to balance the interests of stakeholders. This was in contrast to *Dodge v. Ford Motor Company*, which validated the rule of shareholder primacy.
9. C
10. True
11. Localization is the process of adapting a product for use or sale in other nations and cultures. This might include language translation, adapting content to the tastes and consumption habits of the local market, and converting measurements.
12. This can be a matter of managing expectations. Managers must do the work required for any business deal but deliver it in a way that is culturally sensitive, even if that means negotiating details like project deadlines and the conduct of meetings and agreeing to have different expectations of those in a different cultural context.
13. A
14. D
15. Conscience is the locus of ethical behavior in business because individuals acting in free association make up the business or organization. They are motivated by their inner voice to act responsibly toward each other and their stakeholders—or not.
16. Although many agree on the importance of goals like acting with honesty and fairness and treating people as ends rather than means, their implementation is extremely complex, because people have different understandings of what is honest, fair, or an end in itself. The result may be a series of diverse rules rather than one set.
17. A humanistic business model focuses on leadership development and the data of social science about how to motivate people. Humanities in ethics looks to case methods, novels, short stories, and plays to gain insight into human behavior.

## Chapter 6

1. C
2. False. Sexual harassment is both unethical and illegal.
3. Surveys show that women value benefits related to childcare and health care more highly than do men, although the benefit mix any employee values most is an individual one.
4. Managers can model ethical behavior by example, and the company can offer training and communicate and strictly enforce a written policy.
5. B
6. False. Minimum wage can be set by city (municipal), state, or federal governments.
7. False. Minimum wages have not kept up with inflation; in fact, they have fallen far behind.
8. Cost of living variations and concern about a shrinking middle class are possible motives for a state to enact its own above-federal minimum wage.
9. Among the factors are discrimination, historical wage rates, and artificially manipulated job titles.



- 10. D
- 11. True
- 12. False. Right-to-work laws are state laws.
- 13. Union membership is low due to two primary reasons: the United States has switched from a manufacturing economy to a service economy, and the law now affords workers many of the protections they once got only through a collective bargaining agreement.
- 14. Most studies indicate that U.S. executives are paid much more highly than executives in other countries, including those that are very competitive with the United States. The pay ratio is approximately three hundred in the United States as compared with twenty-two in the United Kingdom and twelve in Germany.
- 15. False. If an employer is monitoring any device owned by the company, such as a telephone or computer, no advance notice is required.
- 16. False. No state completely bans drug testing. Some regulate it to make sure it is fair and accurate.
- 17. There are at least two reasons a company might want to monitor Internet use at work: productivity and electronic security. Managers do not want employees wasting time or exposing the company to breaches of data security, identity theft, or the legal ramifications of inappropriate or offensive behavior.
- 18. The two exceptions to the ECPA that weaken its protection are the business purpose exception, which allows monitoring if an employer can demonstrate a legitimate business purpose for doing so, and the consent exception, which allows employers to monitor employee communications provided employees have given their consent.
- 19. The answer is yes, as long as a company is responsible for what its employees do. Then businesses need to check for drugs due to reasons such as workplace safety and protection of property.

## Chapter 7

- 1. C
- 2. B
- 3. True
- 4. Conflict of interest: The employee must not act in a way that would result in a conflict of interest with the employer.
- 5. Duty of confidentiality: Employers are well within their rights to expect employees to honor their duty of confidentiality and maintain the secrecy of such proprietary material as trade secrets, intellectual property, and customer data.
- 6. A. Employers can encourage positive behavior toward customers by empowering employees to use their best judgment when working with them.
- 7. B
- 8. True
- 9. Customers' perceptions are formed by the employees with whom they have contact, and these perceptions affect not only the company but all the employees who depend on its success for their livelihood.
- 10. D. Violence by a customer occurs when the violent person has a legitimate relationship with the business, perhaps as a customer or patient.
- 11. A
- 12. True
- 13. Employees owe each other courtesy and respect.
- 14. NIOSH indicates that violence at work usually fits into one of four categories: traditional criminal intent, violence by one worker against another, violence stemming from a personal relationship, and violence by a customer.
- 15. A
- 16. B
- 17. False. Despite legal and cultural differences that may allow bribes in other countries, U.S. firms and their employees are prohibited from paying them.
- 18. In addition to individuals, bribery injures competitors, the government, and the free-market system as a whole.
- 19. Factors that help establish the ethics and legality of gift giving include the value of the gift, its purpose, the circumstances under which it is given, the position of the person receiving it, company policy, and the law.
- 20. B
- 21. False. Generally speaking, labor law gives workers the right to discuss among themselves the specifics of their individual employment agreements, including matters of salary.
- 22. True
- 23. Employees can post information online about wages, hours, and working conditions, and that speech is protected by federal statute.
- 24. Employees should not seek revenge on a boss with whom they are angry. Of course, even if an employee has a personal revenge motive, if the company is actively breaking the law, it is still important that the

wrongdoing be reported.

**25.** The employee should usually try internal reporting channels first, to disclose the problem to management before going public.

## Chapter 8

**1.** B

**2.** C

**3.** True

**4.** Studies indicate that the financial performance of companies with a diverse workforce is above average for their industries. The McKinsey and Company study noted in the chapter found that companies featuring great diversity in their workforces typically enjoyed earnings between 15 and 35 percent greater than their respective US industry medians.

**5.** The percentage of women in leadership positions remains much lower than for men, generally less than 20 percent of positions. The benefits of greater gender diversity in the workforce include improved internal relationships and employee morale and more effective internal and external communication. Studies have also shown that companies in the top 25 percent for executive and/or board diversity had returns on equity more than 50 percent higher than those companies that ranked in the lowest 25 percent.

**6.** C

**7.** A

**8.** False. In both cases, employers must be willing to make a reasonable accommodation for the employee.

**9.** The ADA's main requirement is that employers make reasonable accommodations for applicants and workers with disabilities to allow them to perform the essential functions of the job.

**10.** One example of religious apparel that is protected under Title VII is Muslim women's head scarves, which, in most situations, they may wear.

**11.** C

**12.** False. Title VII of the Civil Rights Act does not address sexual orientation and federal law does not prohibit discrimination based on this characteristic.

**13.** Yes. Approximately half of U.S. states have local laws that provide protection even though federal law does not; however, some of those states prohibit sexual orientation discrimination only in public workplaces, not private ones.

**14.** Yes. The law does not mandate or prohibit extending benefits to LGBTQ partners; it is up to the company.

**15.** A

**16.** C

**17.** True

**18.** Independent contractors are not covered by workers' compensation or unemployment insurance or health insurance coverage.

**19.** Yes. A state can set its own minimum wage higher than the federal level. Currently, twenty-nine states do so.

**20.** B

**21.** C

**22.** True.

**23.** False. Alternatives include the use of patient-drug databases, virtual drug trials, computer models and simulations, noninvasive imaging techniques, and microdosing.

**24.** U.S. companies lose sales abroad because they cannot sell products that were tested on animals in the European Union markets.

## Chapter 9

**1.** C

**2.** False. Entrepreneurs are usually motivated by the hope of profit.

**3.** B

**4.** A

**5.** False. Caveat emptor means the buyer is principally responsible for purchase decisions, not the seller.

**6.** False. Research studies indicate that children are the least-discerning audience for much advertising content.

**7.** A

**8.** True

**9.** Arguably, yes. Residences and businesses in these catastrophe-prone areas certainly would benefit from coverage. The difficulty comes in paying for it; it can be very expensive given the potential for cataclysmic loss. So an apparatus that would combine payment on the part of the insured but supplemented with tax subsidies might be most fair.

**10.** Very. Though it is essentially illegal everywhere, traces of it remain.

11. Statistically, this makes sense, but it often plays out unfairly for those insured individuals who absolutely do not contribute to the higher incidence of claims in certain areas. For example, suppose you are a very safe driver in a neighborhood of dangerous drivers. Your premiums for auto insurance will reflect not so much your own safety record as the overall rate of claims in your community.
12. False. British merchant shippers began insuring themselves against loss of their cargos in the seventeenth century.
13. True
14. False. Employer-sponsored wellness programs carry some risk of invasion of worker privacy.
15. False. Most European countries have single-payer health care systems.
16. A
17. D
18. Yes, such a case could be made, particularly if the company is providing health coverage for its employees, because the cost of this coverage to the employer is driven by the number of health claims made against it by workers. Furthermore, absenteeism reflects the health of employees, and their actions off the job help determine this. Conversely, permitting employers to stipulate worker behavior when not on the clock places great oversight in the hands of management and reduces individual autonomy significantly.

## Chapter 10

1. B
2. A
3. True
4. True
5. An employer can communicate clear expectations and then regularly check the employee's successful completion of tasks according to specifications.
6. Companies can use telecommuting to recruit and retain employees who wish to facilitate work-life balance, or employees from locations that are not within daily travel distance to the facility.
7. C
8. A
9. True
10. Making free or inexpensive food available in the workplace is a recruiting and retention tool. The employer may also hope that if food is available on the premises, employees will spend less time getting meals and more time working. It might be considered unethical to try to control employees' time and limit social interactions away from work.
11. Any new office building could incorporate shared and flexible work space to allow for greater collaboration among employees. Less space would be dedicated to individual offices. A manager would also want to include collaborative technology that allows employees to easily contact customers, vendors, and other suppliers.
12. D
13. A
14. True
15. True
16. Applicants who are interested in working fewer hours will be encouraged to apply for a job they would have to pass up if it were full-time.
17. Gig work allows flexible scheduling, the ability to work for more than one company at a time, and the ability to work more or fewer hours each week, as desired.
18. Advantages include reduced payroll taxes, reduced cost of benefits, and the ability to use and, hence, pay for workers only when they are needed.
19. The development of artificial intelligence allows robots to act on their own much more often, meaning humans do not always control them.
20. Likely yes, for example in the area of self-driving cars, where we have already (in 2018) experienced a pedestrian's death caused by a self-driving car.
21. A
22. False. Companies have no such duty.
23. D

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