Chapter Two

Organizational Justice, Ethics, and Corporate Social Responsibility

The NFL: The National “Fairness” League?

“Play fairly” is something we always admonish children, and doing so is expected of them even more emphatically if they grow up to be athletes. Indeed, the sanctity of athletic events is predicated on fairness. For an athlete to gain an unfair advantage by taking performance-enhancing drugs or by breaking a rule (e.g., using a “corked bat” in baseball) is not tolerated because it gives him or her an unfair advantage. With this in mind, the National Football League (NFL), the game’s official governing body, has gone out of its way to ensure the existence of a “level playing field.”

Within the NFL, a Competition Committee (composed of officials such as team owners and managers) is always tweaking the rules so as to make the game as fair as possible. Consider the simple coin toss used to determine which team will kick or receive the ball when a game begins. For 22 years, this was accomplished by having the captain of
the visiting team call “heads or tails” as a coin was tossed into the air by a referee before the game. Then something happened. On Thanksgiving 1998, referee Phil Luckett misunderstood the call made by the Pittsburgh Steelers’ Jerome Bettis, allowing the Detroit Lions to get possession of the ball at the beginning of a critical overtime period. To avoid such an “unfortunate incident” in the future, as NFL Commissioner Paul Tagliabue called it, the procedure was changed. Starting with the following weeks’ games, the heads-or-tails calls are made before the coin is tossed, thereby allowing any uncertainties to be addressed before the outcome is determined.

To further ensure that the right decisions are made, the NFL uses an “instant replay rule.” This allows coaches an opportunity to challenge (within certain limits) rulings made by officials on the field they believe are erroneous. Once a decision is challenged, a game official reviews a videotaped playback of the play in question and decides whether or not to reverse the earlier judgment. Following a seven-year hiatus, the procedure was reinstated by the NFL in 1999 in the wake of public outcries about blatantly erroneous calls by referees in several critical games during the previous season. Although the procedure is considered far from perfect, it is recognized as a useful way to enhance the fairness of the game.

The NFL’s efforts to make the game of football as fair as possible go beyond the field itself to the financial books of the teams. Since 1994 the NFL has had a “salary cap” in effect, a rule that equalizes the total yearly amount that each team can pay its players (currently about $68 million). The underlying idea was that the game would be made fairer by preventing the wealthier teams from dominating the sport by “buying” the best athletes at prices the poorer teams could not afford. This practice has resulted in having a wider variety of teams win championships in recent years than ever before, eliminating the winning “dynasties” of past years. Many take this as evidence that today athletic talent plays a greater role than organizational wealth in creating winning football teams. Although this practice is not without controversy, NFL officials are convinced that it’s in everyone’s best interest to keep the game as fair as possible.

Football fans surely will argue whether the NFL’s actions really promote the fairness of the game. Then again, controversy is natural in such situations. After all,
fans love to analyze and debate decisions about the sports they love. And few topics are as controversial as what should be done in the name of justice—particularly in the workplace, where well-intentioned parties often disagree about what’s fair. Although this may be unclear, it is very clear that people care dearly about matters of justice on the job. Just ask any worker who feels that the small pay raise he received does not adequately reflect his important contributions, or someone who suspects that the boss is playing favorites by giving one of her coworkers more desirable work assignments. Workers in these cases are bound to cry foul, claiming that they have been treated unfairly. Indeed, people are very sensitive to matters of justice and injustice in the workplace and are inclined to express their feelings in significant ways. Not surprisingly, OB specialists have studied these dynamics in the growing field of organizational justice, one of the major topics covered in this chapter.\(^1\)

The quest to maintain justice in the workplace is part of a broader concern that people have for ethics—doing the right thing—the second major topic we will discuss in this chapter. Given that great philosophers over the years have not reached consensus about what constitutes “the right thing” to do, we shouldn’t be surprised that distinguishing between right and wrong in the workplace is rarely a straightforward matter.\(^2\) Yet, it’s clear from cases that have been in the news in recent years—Enron being the most visible, whose executives have been accused of various improprieties—that we often know what’s wrong when we see it. And, as we will describe in this chapter, the field of OB provides a great deal of insight into why such unethical behavior occurs and can offer suggestions on how to curtail it.

As a natural outgrowth of the quest to behave ethically, many organizational leaders are going beyond merely doing what’s right by proactively attempting to make things better in the communities in which they operate.\(^3\) Indeed, many of today’s organizations are demonstrating what is known as corporate social responsibility—not only attempting to meet prevailing legal and ethical standards but also exceeding them by embracing values that promote the greater welfare of society at large. Whether it involves donating money to charities, staffing community welfare projects, or taking steps to make our air and water clean, engaging in socially responsible behavior is of great concern to leaders of today’s organizations. Here again, OB specialists have sought to explain this behavior, and their efforts will be outlined in this chapter.

**Organizational Justice: Fairness Matters**

Suppose you received a failing grade in a course. You don’t like it, of course, but can you say that the grade is unfair? To answer this question, you would likely take several things into consideration. For example, does the grade accurately reflect how well you performed in the course? Were your scores added accurately and were they computed in an unbiased fashion? Has the professor treated you in a polite and professional fashion? Finally, has the professor communicated the grading process to you adequately? In judging how fairly you have been treated, questions such as these are likely to be raised, and your answers are likely to have a considerable impact on how you feel about your grade, the professor, and even the school as a whole. Moreover, they are likely to have a profound effect on how you respond,
such as whether you quietly accept the grade, complain about it to someone, or even quit school entirely.

Although this example involves you as a student, the same kinds of considerations are likely to arise in the workplace. In that context, instead of talking about grades from professors, concerns about justice may take analogous forms. Does your salary reflect your work accomplishments? How was your performance evaluation determined? Were you treated with dignity and respect by your boss? And have you been given important job information in a thorough and timely manner? Matters such as these are relevant to organizational justice—the study of people’s perceptions of fairness in organizations. The following discussion of organizational justice will focus on three important considerations—the major forms of organizational justice, the relationships between these forms, and tips for promoting justice in organizations.

Forms of Organizational Justice and Their Effects

The idea that justice is a multifaceted concept follows from the variety of questions just raised previously to everything from how much you get paid to how well you are treated by your boss. Not surprisingly, OB scientists have recognized that organizational justice takes several different forms. These are known as distributive justice, procedural justice, interpersonal justice, and informational justice (see Figure 2.1).4

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**Figure 2.1 Forms of Organizational Justice and Their Effects**

Organizational justice takes the four different forms identified here. Each of these forms of justice has been found to have different effects in organizations.

(Sources: Based on suggestions by Colquitt, 2001, and Greenberg, 1993; see Note 4.)
Distributive justice. On the job, people are concerned with getting their “fair share” of resources. We all want to be paid fairly for the work we do and we want to be adequately recognized for our efforts and any special contributions we bring to the job. 

Distributive justice is the form of organizational justice that focuses on people’s beliefs that they have received fair amounts of valued work-related outcomes (e.g., pay, recognition, etc.). For example, workers consider the formal appraisals of their performance to be fair to the extent that these ratings are based on their actual level of performance.5

As noted in Figure 2.1, distributive justice affects workers’ feelings of satisfaction with their work outcomes, such as pay and job assignments. Naturally, people will be dissatisfied with such important outcomes when these fall below expected standards. (Related to this, as you will see in the discussion of equity theory appearing in Chapter 6, feelings of distributive justice can have a great impact on people’s motivation to perform their jobs.) Let’s look at a recent study.6 In this investigation, researchers compared two groups of workers with respect to their feelings about distributive justice: a group of local workers from Singapore and a group of foreign workers, Chinese people who worked in Singapore. In this setting, foreign workers tend to not be paid commensurate with their skills. Not surprisingly, the foreign workers expressed higher levels of distributive injustice and were less productive on their jobs.

Procedural justice. Recall our earlier example regarding receipt of a failing grade. In assessing the fairness of this situation you would want to know precisely how your grade was determined. After all, if the professor made an error in calculating your grade, it would be unfair for you to be penalized. In other words, fairness involves consideration of not only how much of various outcomes you receive (i.e., distributive justice) but also the process by which those outcomes are determined—that is, procedural justice. In other words, procedural justice refers to people’s perceptions of the fairness of the procedures used to determine the outcomes they receive.

Again, let’s consider as an example the formal appraisals of their performance that workers receive on the job. Research has shown that workers consider these ratings to be fair to the extent that certain procedures were followed, such as when raters were believed to be familiar with their work and when they believed that the standards used to judge them were applied to everyone.7 As you might imagine, matters of procedural justice take a variety of different forms and are involved in many different situations. Case in point: On May 12, 1998, New York City cab drivers went on strike to protest Mayor Giuliani’s imposition of new safety rules.8 As it worked out, the drivers had little gripe with the rules themselves. However, they felt it was unfair for the mayor to impose the rules without consulting with them. In their eyes, fairness demanded having a voice in the decision-making process. This too is a consideration when it comes to judging procedural justice. For a more complete list of some of the major factors that people take into account when forming judgments about procedural justice, see Table 2.1.
Table 2.1  Procedural Justice Criteria

In forming judgments of procedural justice, people take different factors into consideration. Some of the major ones are identified here, along with descriptions and examples of each.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Description</th>
<th>Example</th>
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<tbody>
<tr>
<td>Voice in the making of decisions</td>
<td>Perceptions of procedural justice are enhanced to the extent that people are given a say in the decisions affecting them.</td>
<td>Workers are given an opportunity to explain their feelings about their own work to a supervisor who is evaluating their performance.</td>
</tr>
<tr>
<td>Consistency in applying rules</td>
<td>To be fair, the rules used as the basis for making a decision about one person must be applied equally to making a decision about others.</td>
<td>A professor must use the same exact standards in evaluating the term papers of each student in the class.</td>
</tr>
<tr>
<td>Accuracy in use of information</td>
<td>Fair decisions must be based on information that is accurate.</td>
<td>A manager calculating the amount of overtime pay a worker is to receive must add the numbers accurately.</td>
</tr>
<tr>
<td>Opportunity to be heard</td>
<td>Fair procedures are ones in which people have a readily available opportunity to correct any mistakes that have been made.</td>
<td>Litigants have an opportunity to have a judge’s decision reconsidered in the event that an error was made in legal proceedings. (See also the instant replay rule used by the NFL as described in the opening vignette).</td>
</tr>
<tr>
<td>Safeguards against bias</td>
<td>A person making a decision must not have any opportunity to bias the results.</td>
<td>Lottery drawings are held in such a manner that each number is selected in a completely random, unbiased fashion.</td>
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(Source: Based on Information in Greenberg, 1996; see Note 5.)

Maintaining procedural justice is a major concern of people in all types of institutions. In legal proceedings, for example, cases may be dismissed if unfair procedures are used to gather evidence. And, in organizations, people also reject decisions based on unfair procedures. In fact, following unfair procedures not only makes people dissatisfied with their outcomes (as in the case of distributive justice) but also leads them to reject the entire system as unfair. Not surprisingly, as shown in Figure 2.1, procedural justice affects people’s tendencies to follow organizational rules: Workers are inclined to not follow an organization’s rules when they have reason to believe that organization’s procedures are inherently unfair. And, of course, when this occurs, serious problems are likely to arise. Accordingly, everyone in an
organization—especially top officials—would be well advised to adhere to the criteria for promoting procedural justice summarized in Table 2.1.

**Interpersonal justice.** Imagine that you were just laid off from your job. You’re not happy about it, of course, but suppose that your boss explains this situation to you in a manner that takes some of the sting out of it. Although your boss cannot do anything about this high-level corporate decision, he or she is very sensitive to the problems this causes you and expresses concern for you in a highly dignified manner. Research has shown that people experiencing situations such as this tend to accept their layoffs as being fair and hold positive feelings about their supervisors (see Figure 2.1). Importantly, such individuals are less inclined to sue their former employers on the grounds of wrongful termination than those who believe they were treated in an opposite manner—that is, in an insensitive and disrespectful fashion. The type of justice demonstrated in this example is known as **interpersonal justice.** This refers to people’s perceptions of the fairness of the manner in which they are treated by other people.

**Informational justice.** Imagine that you are a heavy smoker of cigarettes and learn that your company has just imposed a smoking ban. Although you may recognize that it’s the right thing to do, you are unhappy about it because the ruling forces you to change your behavior and break an addictive habit. Will you accept the smoking ban as fair and do your best to go along with it? Research suggests that you will do so only under certain circumstances—if you are given clear and thorough information about the need for the smoking ban (e.g., the savings to the company and improvements to the health of employees). The form of justice illustrated in this example is known as **informational justice.** This refers to people’s perceptions of the fairness of the information used as the basis for making a decision. Because detailed information was provided about the basis for implementing the smoking ban, informational justice was high, leading people to accept the fairness of the smoking ban.

A key explanation for this phenomenon is identified in Figure 2.1—namely, that informational justice prompts feelings of being valued by others in an organization. In other words, people believe that they are considered an important part of the organization when an organizational official takes the time to explain thoroughly to them the rationale behind a decision. And people experiencing such feelings may be expected to believe that they are being treated in a fair manner. (By now, you may be thinking about the four types of fairness in the organization in which you work. To help you assess these feelings in a systematic manner, complete the **Self-Assessment Exercise** on pages 65–67.)

**Relationships Between Various Forms of Justice**

Although I have been describing the various forms of organizational justice separately, it would be misleading to assume that they are completely independent of one another. In fact, researchers have found some well-established relationships between the various forms of justice.

**The interactive relationship between distributive justice and procedural justice.** Imagine once again that you have received either an excellent grade or a poor grade...
in a class. Given that most of us tend to perceive ourselves more positively than others see us (we will discuss such perceptual biases in Chapter 3), you are likely to believe that a high grade is more fairly deserved than a low grade. In other words, the positive outcome is likely to be perceived as being more distributively just than the low outcome. (The same would apply to other outcomes as well, such as pay or recognition on the job.) Now, imagine that your grade either was the result of a simple arithmetic error (i.e., procedural justice was low) or that it was computed in an accurate, unbiased fashion (i.e., procedural justice was high). Generally speaking, you will respond more positively to the fair procedure than the unfair procedure, thinking more favorably of the professor and the school as a whole. (Of course, the analogous effect also would apply in organizations.) So far, this is nothing new.

Consider, however, what happens when you combine these effects, looking at the overall relationship between the favorability of outcomes together with the fairness of procedures to arrive at those outcomes. This relationship, which takes the interactive form shown in Figure 2.2, has been very well established among scientists studying organizational justice. Let’s illustrate this relationship using the course grade example. The right side of the diagram describes what happens when the outcome is favorable—in other words, when you get a high grade. In this instance, you would be inclined to have a positive reaction because you are so very pleased with your high grade. Although you don’t like the fact that it was not computed fairly, you are willing to overlook this given that you got what you wanted.

Now, however, look at the left side of the diagram, the part representing unfavorable outcomes. In this case, where you received a low grade, your feelings about the professor and even the school as a whole are likely to be influenced greatly by the fairness of the procedure. Specifically, it shows that you will be highly dissatisfied with the low grade when it results from an unfair procedure. After all, the grade doesn’t reflect your true performance. However, your reactions are inclined to be far more positive when the low grade was based on a fair procedure. Again, although you don’t particularly like the grade, believing that it was computed in an accurate and unbiased fashion (i.e., that it is procedurally fair) will get you to respond in a positive fashion. Put differently, although people’s reactions to favorable outcomes are enhanced by fair procedures, their reactions to favorable outcomes are affected very little by the fairness of the procedure used.

This particular relationship is important to understand because it has very practical implications. In organizations, after all, it is not always possible to give people the favorable outcomes they desire. However, this does not necessarily mean that they will respond negatively. The possibility of negative reactions may be minimized by following fair procedures (and, of course, by ensuring that everyone involved is well aware of the fairness of the procedures followed). To borrow a phrase from Mick Jagger, “you can’t always get what you want,” but you are more likely to accept what you get when it was determined in a procedurally just manner.

**The additive relationship between interpersonal justice and informational justice.**

In contrast to the interactive relationship between distributive justice and procedural justice, the relationship between interpersonal justice and informational justice is far simpler. Research has shown that perceptions of justice are enhanced when people explain outcomes using a lot of detail (i.e., when informational justice
Many different studies have reported that the relationship between outcome favorability and procedural justice takes the form summarized here. Specifically, people’s reactions to favorable outcomes are affected little by the fairness of the procedure whereas people’s reactions to unfavorable outcomes are enhanced by the use of fair procedures.

To illustrate this effect, which until now I have described only abstractly, consider an interesting experiment conducted a few years ago. In this study, the
researcher underpaid people who performed a clerical task by paying them far less than expected. Because distributive justice was violated, people reacted negatively. In fact, when it was possible to do so, they stole some of the money they had coming to them. However, the amount they stole depended on informational justice (how thoroughly the underpayment was described to them) and interpersonal justice (how much sensitivity was conveyed about the underpayment). The results were straightforward: People stole less when high amounts of informational justice were shown (i.e., when the underpayment was explained thoroughly) than when low amounts were shown (i.e., when the underpayment was explained in cursory fashion), and when high levels of interpersonal justice were shown (i.e., when the underpayment was explained in a highly sensitive and caring manner) than when low levels of interpersonal justice were shown (i.e., when the underpayment was explained in a more detached and insensitive fashion). Importantly, these two effects combined in additive fashion such that people stole least when together both informational justice and interpersonal justice were high (i.e., when thorough information was presented in a sensitive fashion) and stole most when together both informational justice and interpersonal justice were low (i.e., when cursory information was presented in an uncaring fashion).

This additive relationship between interpersonal justice and informational justice can be very valuable for supervisors to take into account when managing employees. The implications are straightforward: Sharing lots of information about outcomes makes workers accept those outcomes better as does presenting that information in a sensitive and caring fashion. However, being both highly informative and highly sensitive and caring in one’s presentation style at the same time enhances feelings of justice and promotes positive behavior most effectively of all.

Suggestions for Promoting Organizational Justice

The examples provided thus far make a compelling case for treating employees as fairly as possible. Indeed, workers who believe they are fairly treated are less inclined to respond negatively (such as by stealing from their employers or by suing them if laid off) and more inclined to respond positively (such as by adhering to organizational policies or by being more productive). And if these individual effects aren’t sufficiently convincing, think about what it would be like if entire departments or work groups were composed of employees who felt unfairly treated. The cumulative impact would be dramatic, and that is precisely what was found by scientists conducting a recent study. Analyzing 4,539 employees from 783 departments in 97 different hotels they found that departments composed of employees who felt unfairly treated suffered significantly higher rates of turnover and lower levels of customer satisfaction than those composed of employees who felt fairly treated. And, of course, these factors have enormous impact on a hotel’s success. In view of these findings, there is good reason for managers to go out of their way to promote justice in the workplace. Fortunately, what we know about organizational justice points to some useful suggestions for doing so.

Pay workers what they deserve. The practices of saving a little money by underpaying employees—or informally discouraging them from taking vacation days they
are due, or asking them to work “off the clock”—are doomed to fail. Paying the “going wage” in your community for work of a certain type and not cheating workers out of what they have coming to them are far wiser investments. After all, workers who feel cheated are unmotivated to perform at high levels (see Chapter 6). Just as importantly, those who feel they have been dealt a distributive injustice will be inclined to “even the score” by stealing from their companies. And, of course, a company paying below-market wages is likely to lose because the best workers will be disinclined to remain working there or even to accept jobs there in the first place. Not giving workers what they have coming to them clearly is “penny wise and pound foolish,” as the saying goes.

Offer workers a voice. One of the best-established principles of procedural justice is that people will better accept outcomes when they have had some input into determining them than when they are not involved. This is known as the fair process effect. Often promoting fairness in this manner is accomplished simply by conducting regular meetings with employees to hear what they have to say. The benefits of doing so result not only from making better-quality decisions (because it taps workers’ expertise) but also from merely involving workers in the process. After all, workers whose input is solicited are inclined to feel better accepted as valued members of their organization than those who are ignored. As shown in Figure 2.3, this leads them to perceive both that the resulting outcome is fair and that the procedure used to determine it is fair. And, as noted earlier, perceptions of distributive justice and procedural justice are quite beneficial to organizations.

According to the fair process effect, employees who are given voice in the making of decisions affecting them will feel valued by the decision-making authorities (e.g., top company leaders). In turn, this leads employees to believe that both the decision-making procedure and the outcomes resulting from it are fair. As a result, employees will accept and follow the decision and be more supportive of the organization itself.
Openly follow fair procedures. Table 2.1 identifies several standards to be followed in being procedurally fair. Applying rules in a consistent, unbiased, accurate, and correctable fashion is key to being procedurally fair, of course, but merely doing these things is insufficient. To reap the maximum benefits of your fair actions, it helps to ensure that others in the organization are keenly aware that you are doing so. Blatantly touting the fairness of one’s actions not only may be inappropriately immodest, of course, but also may arouse suspicion about one’s true motives (“why is she making such a big deal about how fair she is?”). At the same time, however, it is very useful to let people know that you are following fair procedures and to assure them of this by announcing all decisions publicly within the company and graciously explaining how they were made to anyone who wants to know. Making decisions in such an open fashion not only promotes perceptions of fairness but also demonstrates to workers precisely what they have to do to be recognized (see Chapter 10).

Explain decisions thoroughly in a manner demonstrating dignity and respect. To be fair, both interpersonally and informationally, it is essential for managers to take great care in how they present decisions to their employees. Specifically, fairness demands giving employees lots of information about how decisions were made and explaining those decisions in a manner that demonstrates dignity and respect for them. This is especially important when the decisions made have a negative impact on workers. After all, it’s bad enough to learn something negative (e.g., a pay cut or a layoff) without having a supervisor add insult to injury by not bothering to explain that decision thoroughly or by demonstrating a lack of concern for your feelings. Illustrating this point, consider what it’s like to have to live through a long pay freeze. Although it’s bound to be painful, people may be more accepting of a pay freeze as fair if the procedure used to determine the need for the pay freeze is believed to be thorough and careful—that is, if “a fair explanation” for it can be provided. This was precisely what was found in an interesting study of manufacturing workers’ reactions to a pay freeze. Specifically, the researchers made comparisons between two groups of workers: those who received a thorough explanation of the procedures necessitating the pay freeze (e.g., information about the organization’s economic problems), and those who received no such information. Although all workers were adversely affected by the freeze, those receiving the explanation better accepted it. In particular, the explanation reduced their interest in looking for a new job.

The practical lesson to be learned from this is important: Even if managers cannot do anything to eliminate distributive injustice (e.g., their “hands may be tied” by company policies), they may be able to reduce some of the sting by providing explanations as to why these unfortunate conditions are necessary and doing so in a sensitive and caring fashion. In fact, behaving in this manner can be one of the most effective cost-free things a manager can do.

Train workers to be fair. Most people perceive themselves as fair individuals. However, as is clear from this section of the chapter, being fair involves several very specific things. And, when facing the everyday pressure to get the job done, managers may not be taking into account as many of the principles of organizational justice as they should. With this in mind, it has been found useful to train practicing managers on how to be fair (I will discuss the topic of training more thoroughly in
In general, these efforts have been quite successful. Managers who have been trained to treat their employees more fairly (i.e., by being trained in the various forms of justice and practice in bringing them about) reaped several key benefits compared to those who have not been trained to be fair. Not only are their employees less inclined to respond in a negative fashion (e.g., by stealing from the company), but the employees also are more inclined to pitch in and help others in the organization (a phenomenon known as organizational citizenship behavior, which I will describe in Chapter 7).

**Ethical Behavior in Organizations**

The history of American business is riddled with sordid tales of magnates who would go to any lengths in their quest for success, destroying in the process not only the country’s natural resources and the public’s trust but also the hopes and dreams of millions of people. For example, legends abound of how John D. Rockefeller, founder of Standard Oil, regularly bribed politicians and stepped all over people in his quest to monopolize the oil industry. I do not mean to imply that unsavory business practices are only a relic of the past. Far from it! As you know, they are all too common today—so much so that one newspaper reporter referred to ethical scandals as having reached “epidemic levels.”

Just consider some of the major headlines from recent years:

- Hackers and data thieves plague businesses and government agencies.
- Martha Stewart indicted for insider trading.
- Enron officers cited for “cooking the books” to make millions for themselves (see Chapter 10).
- Sears found to use fraudulent practices in its auto-repair business.
- Nike accused of hiring children to manufacture clothing under dangerous working conditions.
- Adelphia Communications officials charged with using corporate funds to make exorbitant personal purchases.

Clearly, human greed has not faded from the business scene. However, something has changed—namely, the public’s acceptance of unethical behavior on the part of organizations. Consider this statement by a leading expert on business ethics:

> Ethical standards, whether formal or informal, have changed tremendously in the last century. . . . Standards are considerably higher. Business-people themselves, as well as the public, expect more sensitive behavior in the conduct of economic enterprise. The issue is not just having the standards, however. It is living up to them.

Not surprisingly—despite the spate of ethical crises that have gained the public’s attention in recent years—growing intolerance of unethical business activity (and, cynically, fear of getting caught) has inspired business leaders to become more ethical than ever. According to a recent survey, between 2000 and 2003, workers report that top managers are more inclined to keep their promises, less inclined to engage in misconduct, less likely to feel pressure to be unethical, and perceive greater atten-
tion paid to practicing honesty and respect for others. At the same time, whatever ethical misdeeds they do witness are much more likely to be reported to organizational authorities.27

To the extent that people are increasingly intolerant of unethical business activity, it should not be surprising to learn that OB scientists are interested in understanding unethical practices and developing strategies for combating them. We will consider these issues in this section and the next section of this chapter. First, however, to prepare you for understanding ethical behavior in organizations, it helps to begin by addressing a fundamental question: What is ethics?

What Do We Mean by Ethics?

Although people often talk about ethics, it’s not always clear what they mean. With this in mind, let’s define some key terms. To understand what is meant by ethics, we first must understand the concept of moral values. When social scientists speak of moral values they are referring to people’s fundamental beliefs regarding what is right or wrong, good or bad. One of the most important sources of moral values is the religious background, beliefs, and training we receive. Although people’s moral values may differ, several are widely accepted. For example, most people believe that helping someone in need (e.g., being charitable) is the right thing to do whereas harming someone (e.g., killing) is wrong.

Based on these beliefs, people are guided in ways that influence the decisions they make and the actions in which they engage. These standards are what we mean by ethics. Thus, ethics refers to standards of conduct that guide people’s decisions and behavior (e.g., not stealing from others is one such ethical standard).28 With this in mind, organizational scientists acknowledge that it is not a company’s place to teach employees values. After all, these come with people as they enter the workplace. However, it is a company’s responsibility to set clear standards of behavior and to train employees in recognizing and following them.29 (For a summary of the distinction between moral values and ethics, see Figure 2.4.) Just as organizations prescribe other kinds of behavior that are expected in the workplace (e.g., when to arrive and leave), so too should they prescribe appropriate ethical behavior (e.g., how to complete expense reports and what precisely is considered a bribe). Not surprisingly, most top business leaders recognize that clearly prescribing ethical behavior is a fundamental part of good management. After all, says Kent Druyversteyn, former vice president of ethics at General Dynamics, “Ethics is about conduct.”30

In looking at Figure 2.4, please note the row of rounded boxes at the bottom. These identify some of the factors affecting moral values, ethics, decisions, and behavior. The ones corresponding to ethics and values are described in this section of the chapter. However, as indicated in the box in the lower right corner, the decisions people make and the behavior in which they engage are determined by a wide variety of considerations beyond ethics. Accordingly, these are discussed elsewhere throughout this book (note the references to other chapters in this book).

Why Should Companies Care About Ethical Behavior?

It’s obvious, of course, that companies should do things to promote ethical behavior among employees simply because they are morally appropriate. To some top executives,
As summarized here, moral values (which reside within an individual) provide the basis for ethics (which are standards of behavior that can be regulated by organizations). Ethical standards influence both decisions and behavior in the workplace, which also are affected by a host of other variables identified throughout this book.

Figure 2.4 Moral Values Versus Ethics

behaving ethically is an integral part of business. Take Levi Strauss & Co., for example, whose chairman, Robert D. Haas, has observed as follows:

Levi has always treated people fairly and cared about their welfare. . . . In the past, however, that tradition was viewed as something separate from how we ran the business. We always talked about the “hard stuff” and the “soft stuff.” The soft stuff was the company’s commitment to our work force. And the hard stuff was what really mattered; getting pants out the door. What we’ve learned is that the soft stuff and the hard stuff are becoming increasingly intertwined. A company’s values—what it stands for, what its people believe in—are crucial to its competitive success. Indeed, values drive the business. . . . Values are where the hard stuff and the soft stuff come together.31

All too often, as you know, forces deter even good people from doing the right thing. Pressure to meet “the bottom line” sometimes encourages people to do whatever it takes to make money, at least in the short run, even if it leads them to behave unethically. For example, some unscrupu-
lous stockbrokers have been known to boost their own sales commissions by encouraging clients to make investments they know are questionable. Corporate leaders need to be concerned about this, if not for moral reasons, then out of recognition of two critical business realities—by being ethical, companies can (1) reap various financial benefits and (2) adhere to legal regulations.

**Good ethics is good business.** People promoting ethical behavior among businesses agree that good ethics is good business. In other words, the idea is that although one may benefit in the short run by behaving unethically (e.g., the stockbroker in our example), being ethical pays off in the long run. These benefits take several forms, including the following:

- **Improved financial performance:** Companies that make a clear commitment to ethics outperform those that make no such commitment on standard measures of financial success. In fact, one recent study reported that companies that make an explicit commitment to ethical behavior returned twice the value to shareholders than those that were more casual about ethical issues.

- **Reduced operating costs:** Many efforts to reduce waste and to save energy designed to protect the natural environment also help save money.

- **Enhanced corporate reputation:** Many customers are loyal to companies that demonstrate their commitment to social causes. For example, The Body Shop has benefited by promoting the things it does to help the poor people from third world nations from whom they buy raw materials, courting customers who share their values.

- **Increased ability to attract and retain employees:** People generally like working at companies of which they can be proud and that treat them well. When talented employees are difficult to find, socially responsible companies have an easier job of getting people to work for them—and keeping them there.

If this evidence is not sufficiently convincing, then consider the other side of the coin. The evidence also is compelling that “bad ethics is bad business.” Companies that survive ethical scandals do so under diminished capacity in large part because “the black eye” makes the public shy away from them—both as consumers and as stockholders—at least for a while. Good examples from years past include Dow Corning (whose breast implants were found to be unsafe), Exxon (whose ship, the *Valdez*, spilled oil off the coast of Alaska), and the United Way (whose top official was accused of misusing agency funds). These misdeeds have cost their respective organizations dearly, and regaining the public’s trust has proven to be a slow process. At the United Way, for example, although only one person, the president, was involved in the ethical scandal, completely independent and scrupulously ethical chapters of the esteemed philanthropic organization suffered severe reductions in donations (one-fifth of former donors stopped giving altogether and the remaining ones gave less) for at least five years.
The lesson is clear: Even if company executives do not recognize the benefits of behaving ethically, they surely cannot afford to ignore the costs of behaving unethically.

**Legal regulations.** Being ethical is not the same as following the law. In fact, a useful way to think of the law is as providing the minimum acceptable standard to which companies must adhere. Being ethical typically involves following a higher standard. Vin Sarni, former CEO of PPG, put this well when he said, “It is not enough simply to say that our conduct is lawful. The law is the floor. Compliance with it will be the absolute minimum with respect to the PPG associate, no matter where he or she works. Our ethics go beyond the legal code.”36 At the same time, it must be noted that the law plays a large role in governing ethical behavior within organizations. Some of the major laws enacted in the United States that influence ethical behavior in organizations are as follows:

- **False Claims Act (1986):** Provides procedures for reporting fraudulent behavior against U.S. government agencies and protects whistle-blowers (see Chapter 7) who do so.
- **Foreign Corrupt Practices Act (revised 1988):** Prohibits organizations from paying bribes to foreign officials for purposes of getting business.
- **Federal Sentencing Guidelines for Organizations (1991):** Provides guidelines for federal judges to follow when imposing fines on organizations whose employees engage in criminal acts.
- **Sarbanes-Oxley Act (2002):** Enacted to guard against future accounting scandals (such as occurred at Enron; see Chapter 10), this law initiates reforms in the standards by which public companies report accounting data.
- **Federal Prosecution of Business Organizations (2003):** To protect investors against unscrupulous acts by top executives (also in response to the Enron scandal), these revisions to the Federal Sentencing Guidelines for Organizations now focus on the role of boards of directors—the only parties in organizations with sufficient clout to prevent wrongdoing by high-ranking officials.37

Although all these laws are important when it comes to minimizing unethical behavior in organizations, the Federal Sentencing Guidelines for Organizations have been the most explicit when it comes to specifying precisely what organizations should do to discourage unethical behavior. The underlying rationale is that the more proactively organizations discourage criminal behavior by employees, the less they will be penalized should such behavior occur. (After all, an organization cannot directly control everything every employee does!) Specifically, the Federal Sentencing Guidelines for Organizations identify several specific actions which, if taken, will be recognized as efforts to discourage illegal behavior.38 Not surprisingly, these behaviors, which are listed and described in Table 2.2, are widely followed by companies in their efforts to promote ethical behavior.

**Why Do Some People Behave Unethically, at Least Sometimes—and What Can Be Done About It?**

Management experts have long considered the matter of why some people behave unethically on at least some occasions. Put differently, is it a matter of good people who are led to behave unethically because of external forces acting on them (i.e.,
According to the Federal Sentencing Guidelines for Organizations, companies following the practices listed here will be punished less severely should one of its employees engage in criminal conduct.

- Standards for complying with the law should be specified clearly and widely disseminated (e.g., in publications and training programs).
- A high-level official should be responsible for overseeing these standards.
- A clear system for monitoring and auditing behavior should be in place so that criminal behavior can be detected when it occurs.
- Appropriate disciplinary action should be taken against employees who violate the standards.
- If an offense occurs, steps must be taken to prevent its recurrence.

(Source: Based on information reported by the Ethics and Policy Integration Centre, 2003; see Note 38.)

“good apples in bad barrels”) or is it that bad people behave inappropriately in whatever setting they are in (i.e., “bad apples in good barrels”)? Acknowledging the key role of leaders in determining the ethical climate of an organization, some scientists have considered the possibility that because of their profound influence, some unethical leaders (so-called “bad apples”) have made their companies unethical as well (turning “good barrels into bad”), or poisoning the whole barrel, so to speak. Although the relative importance of “apples” and “barrels” has yet to be firmly decided, it is clear that ethical and unethical behavior is determined by both of these classes of factors—that is, individual factors (the person) and situational factors (the external forces people confront in the workplace). In this section of the chapter, we will consider both sets of factors.

Individual Differences in Cognitive Moral Development

As you know from experience, people appear to differ with respect to their adherence to moral considerations. Some individuals, for example, refrain from padding their expense accounts, even if they believe they will not get caught, solely because they believe it is the wrong thing to do. They strongly consider ethical factors when making decisions. However, this is not true of everyone. Still others, as you know, would not think twice about padding their expense accounts, often rationalizing that the amounts of money in question are small and that “the company expects me to do it.” A key factor responsible for this difference is what psychologists refer to as cognitive moral development—that is, differences among people in their capacity to engage in the kind of reasoning that enables them to make moral judgments. (Scientists measure people’s cognitive moral development by systematically analyzing how people say they would resolve various ethical dilemmas. For practice analyzing an ethical dilemma, complete the Group Exercise on pages 67–68.)

The most well-known theory of cognitive moral development was introduced over three decades ago by the psychologist Lawrence Kohlberg. According to Kohlberg’s theory of cognitive moral development, people develop over the years in their capacity to understand what is right. Specifically, the theory distinguishes...
According to Kohlberg’s theory of cognitive moral development, people develop the capacity to make moral decisions as they develop over the years by interacting with others. The three major levels of cognitive moral development are identified here.

**Level I**  
*Preconventional Level*  
What’s right is whatever avoids punishment.  
Children behave in this manner

**Level II**  
*Conventional Level*  
What’s right is whatever fulfills the obligation of society  
Most adults reach this level

**Level III**  
*Postconventional Level*  
What’s right is determined by universal moral principles (e.g., human rights)  
Very few people ever reach this level

(Source: Based on information in Kohlberg, 1976; see Note 40.)

among three levels of moral development (for a summary, see Figure 2.5). The first level is referred to as the *preconventional level of moral reasoning*. People at this level (children and about one-third of all adults) haven’t developed the capacity to assume the perspective of others. Accordingly, they interpret what is right solely with respect to themselves: It is wrong to do something if it leads one to be punished. Because their cognitive skills are not sufficiently advanced, such individuals generally cannot comprehend any argument you may make about something being wrong because it violates their social obligations to others.
As people interact with others over the years, most come to use higher level cognitive processes to judge morality. In a more sophisticated fashion, they judge right and wrong in terms of what is good for the others around them and society as a whole. This second level is referred to as the conventional level of moral reasoning. Approximately two-thirds of adults fall into this category. What they do is governed strongly by what’s expected of them by others, and they carefully scour the social environment for cues as to “what’s right.” People who engage in conventional moral reasoning obey the law not only because they fear the repercussions of not doing so, but also because they recognize that doing so is the right thing to do insofar as it promotes the safety and welfare of society as a whole.

Finally, Kohlberg’s theory also identifies a third level of cognitive moral development, the postconventional level. At this level, people judge what is right and wrong not solely in terms of their interpersonal and societal obligations but also in terms of complex philosophical principles of duty, justice, and rights. Very few people ever attain this level. Those who do, however, follow their own “moral compass,” doing what they are convinced is truly right, even if others don’t agree.

Research has found that people behave in very different ways as a function of their level of cognitive moral development. For example, as you might expect, people who are at higher levels of cognitive moral development (typically, conventional as opposed to preconventional) manifest their greater ethical behavior in several ways. Specifically, they are less inclined to harm others, less likely to misreport information even if it makes them look bad, and steal less from their employers. Although efforts to raise people’s level of moral reasoning through training have been successful, few such efforts have been used in organizations. This is in large part because most workers already function at the conventional level, making them sensitive to efforts to promote ethical behavior predicated on changing the social norms that exist within organizations. We now will consider some of the key social dynamics that influence ethical behavior.

Situational Determinants of Unethical Behavior
As you might imagine, many different situational factors can lead people to behave unethically on the job. Although the list may be long, it is not too difficult to identify some of the major organizational influences on unethical behavior. Here, we will consider three of the most important ones—organizational norms encouraging unethical behavior, managerial values that discourage integrity, and the impact of unethical behavior by leaders. Although these factors surely are interrelated, it is worth identifying them separately so as to highlight their important effects on ethical behavior.

Some managerial values undermine integrity. Most managers appear to believe that “good ethics is good business.” However, some managers have developed ways of thinking that lead them to make unethical decisions. Given how very influential top leaders are when it comes to influencing others in their organizations, it should not be surprising that unethical managerial values promote unethical organizational decisions. Several well-known forms of unethical thinking are as follows.

- **Bottom line mentality**—This line of thinking supports financial success as the only value to be considered. It promotes short-term decisions that are immediately financially sound, despite the fact that they may cause long-term problems for the organization.
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■ **Exploitative mentality**—This view encourages “using” people in a way that promotes stereotypes and undermines empathy and compassion. This highly selfish perspective sacrifices concern for others in favor of benefits to one’s own immediate interests.

■ **Madison Avenue mentality**—This perspective suggests that anything is right if the public can be made to see it as right. The idea is that executives may be more concerned that their decisions appear to be right than about their legitimate morality. This kind of thinking leads some companies to hide their unethical behavior (e.g., dumping toxic waste under cover of night) or to otherwise justify them as acceptable.

Recognizing the problems associated with these various orientations is not difficult. Their overemphasis on short-term monetary gain may lead to decisions that not only hurt individuals in the long run but also threaten the very existence of organizations.

**Organizations sometimes encourage behavior that violates ethical standards.** It is easy to understand that people may behave unethically on the job to the extent that they are encouraged to do so. Consider, for example, how some business executives are expected to say nothing about ethically dubious behavior they’ve witnessed in the company. In fact, in many companies it is considered not only acceptable but also desirable to be secretive and deceitful. For example, the practice of **stonewalling**—willingly hiding relevant information—is quite common.

A major reason for this is that organizations may actually punish those who are too open and honest. As a case in point, consider the disclosure that in 1968 B.F. Goodrich allegedly rewarded employees who falsified and withheld data on the quality of aircraft brakes to win certification. This illustrates how the **counternorms** of secrecy and deceitfulness were accepted and supported by the organization. By counternorms I am referring to accepted organizational practices that run contrary to society’s prevailing ethical standards. For a summary of some of the most common counternorms found in organizations, see Figure 2.6.45

**Workers emulate the unethical behavior of their superiors.** Probably very few organizational leaders condone and actively promote unethical behavior. However, many organizational officials promote unethical behavior unwittingly by way of the examples they set for their employees. For example, suppose a manager submits an expense report to her administrative assistant to prepare for submission to the accounting office. Included on it are several items the assistant knows are not legitimate (e.g., lavish meals with clients). Although the manager might not be thinking about it, by padding her expense account she is sending a message to her administrative assistant that stealing from the company is an acceptable practice. Despite what she might say publicly about not stealing, her behind-the-scenes actions tell a different story. As a result, the administrative assistant might not think twice about taking a few dollars from the company’s petty cash box to purchase her lunch.
Although societal standards of ethics dictate the appropriateness of certain actions, counternorms that encourage and support opposite practices sometimes develop within organizations.

“After all,” she may reason, “my boss takes a little extra money from the company, so it must be okay for me to do so too.”

A recent survey of some 1,500 U.S. employees suggests that this is precisely what happens. Specifically, employees who feel that the top managers in their organization act ethically themselves report seeing far less misconduct among their peers (15 percent) than those who feel that their top managers do not behave ethically themselves or who only talk about behaving ethically (56 percent). Obviously, when it comes to ethical conduct on the job, managers set an example by virtue of their own behavior, and their “actions speak louder than words.” Putting it in the lingo of today’s managers, to promote ethical behavior in their companies, it is essential for officials to “walk the talk.”

Using Corporate Ethics Programs to Promote Ethical Behavior

Most companies today, particularly large ones, have in place some sort of formal, systematic mechanisms designed to promote ethics. These efforts, known as corporate ethics programs, are designed to create organizational cultures (see Chapter 12) that both make people sensitive to potentially unethical behavior and discourage them from engaging in them.

Components of corporate ethics programs. Typically, corporate ethics programs consist of some combination of the following components.
A code of ethics. A code of ethics is a document describing what an organization stands for and the general rules of conduct expected of employees (e.g., to avoid conflicts of interest, to be honest, and so on). In the mid-1990s, about 78 percent of all Fortune 1000 companies had codes of ethics in place, and that figure is higher today. Some codes are highly specific, stating, for example, the maximum size of gifts that can be accepted, whereas others are far more general.

Ethics training. Codes of ethics are especially effective when they are used in conjunction with training programs that reinforce the company’s ethical values. In the absence of such training, too many codes come across as “window dressing,” and are ignored, if they are even read at all. Ethics training efforts consist of everything ranging from lectures, videotapes, and case studies to more elaborate simulations. Citicorp, for example, has trained more than 40,000 employees in over 60 countries using an elaborate corporate ethics game, “The Work Ethic,” that simulates ethical dilemmas that employees are likely to confront.

Ethics audits. Just as companies regularly audit their books to check on irregularities in their finances, they regularly should assess the morality of their employees’ behavior so as to identify irregularities in this realm as well. Such assessments are known as ethics audits. These require actively investigating and documenting incidents of dubious ethical value, discussing them in an open and honest fashion, and developing a concrete plan to avoid such actions in the future. Conducting an ethics audit can be quite revealing. For some useful guidelines on how to do so, see Table 2.3.

| Table 2.3 How to Conduct an Ethics Audit |

A thorough ethics audit can reveal a great deal about a company’s commitment to ethics and the extent to which its efforts to foster ethical behavior are effective. However, to recognize these benefits, it is crucial to conduct an ethics audit in an appropriate manner. The following guidelines will help.

1. Ensure that top executives, such as the CEO, are committed to the ethics audit and appoint a committee to guide it.
2. Create a diverse team of employees to write questions regarding the company’s ethical performance. These should focus on existing practices (e.g., codes of ethics) as well as prevailing norms about company practices (e.g., people regularly padding their expense accounts).
3. Carefully analyze official documents, such as ethical mission statements and codes of ethics, to see how clear and thorough they are.
4. Ask people questions about why they think various unethical behaviors have occurred.
5. Compare your company’s ethical practices to those of other companies in the same industry.
6. Write a formal report summarizing these findings and present it to all concerned parties.

(Source: Based on suggestions by Ferrell et al., 2002; see Note 51.)
An ethics committee. An ethics committee is a group of senior-level managers from various areas of the organization who assist an organization’s CEO in making ethical decisions. Members of the committee develop and evaluate company-wide ethics policies.

An ethics officer. An ethics officer is a high-ranking organizational official (e.g., the general counsel or vice president of ethics) who is expected to provide strategies for ensuring ethical conduct throughout an organization. Because the Federal Sentencing Guidelines for Organizations specify that a specific, high-level individual should be responsible for ethical behavior, many companies have such an individual in place.

A mechanism for communicating ethical standards. To be effective, ethics programs must clearly articulate—and reinforce—a company’s ethical expectations to employees. With this in mind, growing numbers of companies are putting into place ethics hot lines, special phone lines that employees can call to ask questions about ethical behavior and to report any ethical misdeeds they may have observed. (For a particularly effective example of this, and other practices designed to encourage ethical behavior, see the accompanying Winning Practices section.)

The Effectiveness of Corporate Ethics Programs

By themselves, codes of ethics have only limited effectiveness in regulating ethical behavior in organizations. However, an integrated ethics program that combines a code of ethics with additional components (e.g., an ethics officer, ethics training, etc.) can be quite effective. Specifically, it has been found that compared to companies that don’t have ethics programs in place, within those that do, employees (a) are more likely to report ethical misconduct to company authorities, (b) are considered more accountable for ethics violations, and (c) face less pressure to compromise standards of business conduct. Clearly, the ethics programs are being felt.

Additional evidence from a recent study shows that an ethics program also may effectively reduce employee theft, one particularly costly form of unethical behavior. This investigation compared the rate of petty theft between two groups of employees who worked for the same financial services company—one whose office had a corporate ethics program in place for the past six months, and one in a distant city that had no ethics program in place. The ethics program consisted of a code of ethics, an ethics committee, and 10 hours of training. Prior to the study, employees were tested to identify their level of cognitive moral development. Some employees were found to be at the preconventional level whereas others were at the conventional level. The workers volunteered to complete a questionnaire sponsored by the company for one hour after work. They were told to expect “fair pay” for this task but were actually paid considerably less than their standard hourly wage ($2 as opposed to about $10). This motivated the workers to steal from the company in order to get even. In addition, workers were given an opportunity to steal by being allowed to take their own pay from a bowl of pennies in front of them while nobody watched. Because the researcher knew exactly how many pennies were in the bowl beforehand, it could be determined precisely how much money was taken. Amounts in excess of $2 were considered by the researcher to constitute theft.

Did those workers who had a code of ethics in place at their office steal less from the company than those who did not? As shown in Figure 2.7, the answer depended on the workers’ level of cognitive moral development. Workers whose office did not
In 2000, Exelon was formed by the merger of two electric utility companies, Unicom and PECO Energy. The creation of a new company provided an opportunity for an emphasis on ethics to be built into the company’s structure from the ground floor. It was with this in mind that Eliecer Palacios, who was ethics and compliance director at Unicom at the time of the merger and who is now director of ethics and compliance at Exelon, got actively involved in the process of integrating the two companies.\textsuperscript{52} Palacios believed that this was important insofar as large utilities face ethical challenges along several fronts, such as stock trading practices (e.g., avoiding insider trading), protection of the environment (e.g., avoiding air and water pollution), procurement (e.g., avoiding bribes and kickbacks), and following fair labor practices (e.g., avoiding harassment and discrimination). And, given that the energy industry is deregulated, customers have the opportunity to express their dissatisfaction with any ethical missteps by taking their business elsewhere. To avoid any ethical scandals, Palacios built in several safeguards to ensure that Exelon would remain “squeaky clean.”

At the heart of the company’s ethics initiatives is a 16-person Ethics and Compliance Committee. One of the key things this body does is review Exelon’s code of ethics on a quarterly basis. Members, consisting of vice presidents and lower-level employees from throughout the company as well as several attorneys, carefully review the extent to which the company is meeting its legal and ethical obligations. Is it obeying the law? Is it meeting its obligations to shareholders, employees, and the environment? Among the specific things on which the committee focuses are the company’s efforts at training its tens of thousands of employees on proper ethical behavior. Like other big companies, Exelon has a code of ethics, but unlike many, it is actively involved in ensuring that its employees both understand and follow it. With this in mind, Exelon employees are required to complete an intensive ethics training program using the company’s intranet. On an annual basis, employees are required to be certified as having completed the training. Also unlike many companies, ethics training at Exelon involves more than only the lowest-level employees. Instead, everyone from entry level employees to the CEO is required to be trained and recertified annually.

In addition to its training efforts, Exelon maintains an active “helpline” that employees can call to lodge complaints about seemingly unethical behavior or to make inquiries about how to avoid unethical behavior. The helpline, staffed by Palacios and an assistant, receives about 300 calls per year. Most of these involve inquiries about behavior that is considered ethically appropriate (e.g., accepting gifts from a contractor valued at over $25 is considered inappropriate). Calls about allegations of waste, fraud, and abuse, although only about 10 to 15 percent of all received, also occur. All allegations are carefully investigated, and to ensure that these efforts are effective, the company strictly enforces a nonretaliation policy.

At its Web site, Exelon lists among its core values, “commitment in operating facilities safely, protecting the environment, and developing our businesses responsibly.”\textsuperscript{53} From the ethics initiatives reported here, it’s clear that the company is going out of its way to translate these values into everyday practice.
A recent experiment compared the amount that employees stole from their company as a function of whether or not their office had an ethics program in place and their level of cognitive moral development. It was found that an ethics program had no appreciable effect on employee theft among workers at the preconventional level but that an ethics program successfully reduced employee theft among workers at the conventional level.

![Figure 2.7](https://example.com/figure2_7.png)

Figure 2.7 The Effectiveness of an Ethics Program Depends on Cognitive Moral Development: Summary of Research Findings

An ethics program had no effect on employee theft among workers at the preconventional level of cognitive moral development.

An ethics program successfully reduced employee theft among workers at the conventional level of cognitive moral development.

have an ethics program in place stole an average of just under 20 cents regardless of their level of cognitive moral development. Likewise, people from offices that had an ethics program stole about the same amount when they were at the preconventional level of moral development. However, hardly any theft occurred at all among workers at the conventional level who worked at an office that had an ethics program in place. In other words, the ethics program was effective in combating employee theft,
but only among employees who have attained a sufficiently high level of moral development for the program to have an effect on them. By contrast, among workers at the preconventional level of moral development, the ethics program apparently had little, if any, impact. Given that such individuals are unlikely to fully comprehend and accept their ethics training, this makes perfect sense.

Although the amount of theft examined in this study was small, the underlying conclusion to be drawn is straightforward. A corporate ethics program may have only limited effectiveness because it will influence only some workers—those who have reached a sufficiently high level of moral development. Fortunately, this constitutes about two-thirds of the population as a whole. Reaching the other one-third, those at the preconventional level, may well require other methods, such as emphasizing clear penalties for breaking the rules.

**Beyond Ethics: Corporate Social Responsibility**

Usually, when we think of business organizations, we focus on their financial responsibilities to stockholders and investors—that is, to make money. Of course, this is not their only responsibility. As we have been discussing all along, organizations also are responsible for obeying the law and to answering to yet a higher standard, behaving ethically. In addition to these considerations, many of today’s organizations are going beyond their ethical responsibilities by taking proactive steps to help society at large by virtue of their philanthropic contributions. Together, these four types of responsibilities, shown in Figure 2.8 in the form of a pyramid—thus called the pyramid of corporate social responsibility—comprise what we have in mind when we speak of corporate social responsibility.

**What Is Corporate Social Responsibility?**

The term corporate social responsibility is used to describe business decision making linked to ethical values, compliance with legal requirements, and respect for individuals, the community at large, and the environment. It involves operating a business in a manner that meets or exceeds the ethical, legal, and public expectations that society has of business. Some examples of highly socially responsible actions from companies around the world are as follows:

- **Whole Foods Market**—This nationwide chain specializing in organic foods developed an initiative to use solar energy for 25 percent of its power.
- **Stonyfield Farms**—This dairy company donates 10 percent of net profits to charities that help protect and restore the earth, and it pays farmers extra to not use synthetic bovine growth hormones in the milk it buys to make yogurt.
- **Royal Dutch Shell**—This large oil company has agreed to not engage in mining or oil exploration activities in areas of the world that have special biological or cultural significance.
- **Boise Cascade**—Beginning in 2004, this paper and building materials company stopped harvesting timber from old-growth forests and endangered forests.
- **Natura Cosmeticos**—This Brazilian cosmetics firm promotes and supports local human rights initiatives (e.g., it does not use child labor), it promotes education, and it encourages its employees to volunteer for nonprofit organizations in their community.
Figure 2.8 The Pyramid of Corporate Social Responsibility

To be socially responsible, companies must meet the four different types of responsibilities identified here. The most basic responsibilities, financial, are shown at the bottom because organizations would go out of business if they failed to meet their financial responsibilities.

- Starbucks Coffee Co.—Offering more than just a good cup of coffee, Starbucks has programs that benefit employees (e.g., retirement plans for even part-time workers), communities (e.g., promoting local charities), and the environment (e.g., developing reusable cups).
- The Co-operative Bank—One of the most innovative banks in the United Kingdom, the Co-operative Bank refrains from making socially irresponsible investments (e.g., it will not finance weapons deals, the fur trade, and companies involved in animal testing).

It is important to note that corporate social responsibility is not merely a collection of isolated practices or occasional gestures, nor does it involve initiatives motivated by marketing or public relations benefits. Instead, corporate social responsibility is a comprehensive set of policies, practices, and programs that are integrated throughout business operations and decision-making processes that are supported and rewarded by top management. Importantly, social responsibility involves more than simply making a few charitable donations; it must be a commitment to doing what’s best for people and the community (as is the case with the companies spotlighted in these examples). In recent years, many of the largest companies in the United States have been going out of their way to behave in a variety of socially responsible ways. For a summary of some of the most socially responsible companies in a recent year, along with just a single noteworthy example of their commitment to social responsibility, see Table 2.4.59
A research firm recently analyzed the level of corporate social responsibility among the largest companies in the United States in 2003. Basing their analysis on such key considerations as the companies’ contributions to the community, attention to employees’ needs, preservation of the environment, and advancement of minorities and women, the top 10 performers are listed here. As indicated, these companies excelled in different ways.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Notable Socially Responsible Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Mills</td>
<td>Invested $2 million to create 150 jobs in the inner city of Minneapolis</td>
</tr>
<tr>
<td>2</td>
<td>Cummins Engine</td>
<td>Built a school serving 800 poor Brazilian children and their parents in a community near one of its manufacturing plants</td>
</tr>
<tr>
<td>3</td>
<td>Intel</td>
<td>On-the-job safety is emphasized so strongly that the accident rate among employees is 96 percent lower than the industry average</td>
</tr>
<tr>
<td>4</td>
<td>Procter &amp; Gamble</td>
<td>Helped UNICEF fund tuberculosis vaccinations for 8 million children in developing countries</td>
</tr>
<tr>
<td>5</td>
<td>IBM</td>
<td>Donated $71 million in grants to help schools and $127 million in programs to help needy people around the world</td>
</tr>
<tr>
<td>6</td>
<td>Hewlett-Packard</td>
<td>Built a worldwide network of employee volunteers to develop ways to help the company to sustain the environment</td>
</tr>
<tr>
<td>7</td>
<td>Avon Products</td>
<td>Raised $250 million in support of breast cancer research, education, and screening for medically underserved women</td>
</tr>
<tr>
<td>8</td>
<td>Green Mountain Coffee</td>
<td>Pays poor Latin American coffee growers higher “fair trade price” for beans instead of the substantially lower “market price”</td>
</tr>
<tr>
<td>9</td>
<td>John Nuveen</td>
<td>Developed an educational program on financial literacy that is in use at over 1,300 schools</td>
</tr>
<tr>
<td>10</td>
<td>St. Paul</td>
<td>An active volunteer program gets employees involved in tutoring in schools, helping cleanup after natural disasters, and helping the homeless</td>
</tr>
</tbody>
</table>

(Sources: Based on information reported by Asmus, 2003, see Note 59; and the Web sites of the companies listed.)

**Profitability and Social Responsibility: The Virtuous Circle**

Do socially responsible companies perform better financially than those that are less socially responsible? The answer is not straightforward. Sometimes scientists
find no clear connection, which is not surprising given the complexities of social responsibility and the fact that many different variables influence a company’s financial performance. However, on many other occasions, they do find such a link. Consider, for example, that in the four decades from 1950 to 1990, highly socially responsible companies such as Johnson & Johnson, Coca-Cola, Gerber, IBM, Deere, Xerox, JCPenney, and Pitney Bowes grew at an annual rate of 11.3 percent compared to only 6.2 percent for other companies on the Dow Jones Industrials list over the same period.60

Although there are surely many different reasons for this, a key one, which I also mentioned in connection with ethics, is that people often support the socially responsible activities of organizations with their patronage and investments. With this in mind, there exist mutual funds that invest only in socially responsible companies and books that provide detailed information on the socially responsible (and irresponsible) behavior of companies that consumers and investors can use to guide their decisions.61

Today, individuals who desire to support socially responsible companies by “voting with their dollars” can find it easy to get the information they need. That this may contribute to the financial well-being of a company is important, of course, since financial considerations are an organization’s most basic responsibility (which is why they are at the base of the corporate social responsibility pyramid shown in Figure 2.8). That said, it is important to keep in mind that companies engage in socially responsible behavior for its own sake, not as a path to profitability.

Although profit may not be the primary objective for engaging in socially responsible behavior, it is clear that there is a strong link between the two. Moreover, this connection appears to be bidirectional in nature. The idea is straightforward: As noted earlier, companies that are highly socially responsible tend to perform well financially (i.e., they “do well by doing good”), and then because they have substantial resources, they can afford to allocate more resources (money, help from employees, etc.) to social causes (i.e., they “do good by doing well”). This relationship, which has been referred to as the virtuous circle, is summarized in Figure 2.9.62

With the virtuous circle in mind, it is not surprising to find that some of the world’s most profitable organizations are also among the most philanthropic. For example, the highly profitable Microsoft Corporation regularly makes multimillion-dollar charitable contributions to worthwhile causes in the form of cash and software. In addition, a generous $24 million donation from its co-founder Bill Gates has made it possible for more good work to be accomplished around the world through the Bill and Melinda Gates Foundation. Although many big companies have been accused of exploiting people and harming society, examples like these make it clear that there is also another side to the story—and a very munificent and socially responsible one at that.63
It is been suggested that socially responsible companies perform well financially because they are supported by customers and investors. As a result, they become wealthier, making it easier for them to become even more philanthropic. This is known as the virtuous circle.
You Be the Consultant

Employee Theft in Convenience Stores

The district manager of a chain of 24-hour convenience stores is very concerned about her stores’ rate of employee theft, which is currently about twice the industry average and rising rapidly. Because this problem has arisen suddenly, you and she suspect that it is in response to some recently introduced changes in the company’s overtime policy. Managers who used to be paid time-and-a-half for each hour they worked over 40 are now paid a flat salary that typically results in lower total wages for the same amount of work. Answer the following questions based on the information in this chapter.

1. What form of justice appears to have been violated by the new pay policy? Explain your answer.

2. In this case, the new pay policy was implemented without first discussing it with store managers. Do you think that the theft rate might have been lower had this been done? What else could be done to reduce the growing theft rate?

3. The company’s code of ethics expressly prohibits theft, but other than being handed a copy along with other company documents and forms upon being hired, hardly anyone pays attention to it. What do you think could be done, if anything, to enhance the effectiveness of the code of ethics as a weapon for combating the theft problem?

Self-Assessment Exercise

Assessing Organizational Justice Where You Work

To learn about how workers respond to various types of injustices they may experience in the workplace, scientists have found it useful to use rating scales like the one shown. By completing this scale, you will gain some useful insight into your own feelings about the fairness experienced in the organization in which you work.

Directions

1. Using the following scale, respond to each of the questionnaire items by selecting a number from 1 to 5 to indicate the extent to which it applies to you.

   1 = almost never
   2 = slightly
   3 = moderately
   4 = greatly
   5 = almost always
2. In responding to each item, think about a particular organization in which you work or, if you are a student, think about a particular class.

3. Where you see the word (outcome), substitute a specific outcome that is relevant to you (e.g., for a worker, pay; for a student, a grade).

4. Where you see the word (superior), substitute a specific authority figure that is relevant to you (e.g., for a worker, one’s supervisor; for a student, one’s teacher).

Scale

To what extent . . .

1. _____ Is it possible for you to express your views about your (outcome)?
2. _____ Are your (outcomes) generally based on accurate information?
3. _____ Do you have an opportunity to correct decisions made about your (outcome)?
4. _____ Are you rewarded appropriately for the effort you put into your work?
5. _____ Do the (outcomes) you receive reflect the quality of your work?
6. _____ Is your (outcome) in keeping with your performance?
7. _____ Are you treated politely by your (superior)?
8. _____ Does your (superior) treat you with dignity and respect?
9. _____ Does your (superior) refrain from making inappropriate comments?
10. _____ Does your (superior) communicate openly with you?
11. _____ Does your (superior) tell you things in a timely fashion?
12. _____ Does your (superior) explain decisions to you in a thorough fashion?

(Source: Adapted from Colquitt, 2001; see Note 4).

Scoring

1. Add your responses to questions 1, 2, and 3. This is your distributive justice score.
2. Add your responses to questions 4, 5, and 6. This is your procedural justice score.
3. Add your responses to questions 7, 8, and 9. This is your interpersonal justice score.
4. Add your responses to questions 10, 11, and 12. This is your informational justice score.
5. For each score, higher numbers (e.g., 12–15) reflect higher perceived amounts of the type of fairness in question, whereas lower scores (e.g., 3–6) reflect lower perceived amounts of that type of fairness.
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Discussion Questions

1. With respect to what particular type of fairness did you score highest? What specific experiences contributed to this assessment?

2. With respect to what particular type of fairness did you score lowest? What specific experiences contributed to this assessment?

3. What kinds of problems resulted from any violations of any type of organizational justice you may have experienced? What could have been done to avoid these violations?

Group Exercise

Analyzing an Ethical Dilemma

More often than you might imagine, managers confront situations in which they have to decide the right thing to do. Such “ethical dilemmas,” as they are known, are usually quite challenging. Discussing ethical dilemmas with others is often a useful way of shedding light on the ethical path by identifying ethical considerations that you may have overlooked on your own. This exercise will give you an opportunity to analyze an ethical dilemma.

Directions

1. Divide the class into multiple groups of three or four students.

2. Read the following ethical dilemma.

3. Working together with the others in your group, analyze the dilemma by answering the following questions:

   (a) As the vice president in this situation, what do you think you would do? What factors enter into your decision?

   (b) What do you think would be the right thing to do? Explain the basis for your answer.

Ethical Dilemma

You’re the vice president of a medium-sized organization that uses chemicals in its production process. In good faith, you’ve hired a highly competent person to ensure that your company complies with all environmental laws and safety regulations. This individual informs you that a chemical the company now uses in some quantity is not yet on the approved EPA list, although it’s undergoing review and is scheduled to be placed on the approval list in about three months because it’s been found to be safe. You can’t produce your product without the chemical, yet you’re not supposed
to use the chemical until it’s approved. Waiting for approval would require shutting down the plant for three months, putting hundreds of people out of work, and threatening the company’s very survival.


Discussion Questions

1. Did the members of your group generally agree or disagree about what they would do in the situation described? What new viewpoints, if any, did you learn from others in your group?

2. Did the members of your group generally agree or disagree about what they thought was the right thing to do? What were the major points of agreement and disagreement?

3. In judging the right thing to do, what factors were taken into account (e.g., the law, the layoffs, etc.) and in what manner were they considered? Did you gain any new insight into the ethical dilemma by virtue of the viewpoints expressed by others? Explain.

Notes

Case Notes


Chapter Notes

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11 See Note 5.


13 See Note 5.


16 See Note 7.


31 See Note 30. (quote, pp. 26–27)


33 See Note 26.

34 See Note 30.


36 See Note 30. (quote, pp. 30–31)


46 See Note 27.


See Note 29.


See Note 45.

See Greenberg, 2002; Note 40.


See Note 30.