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How Consumers Perceive the Ethical Conduct of Businesses and their Managers

By Derrek Choy

Abstract

Over the last twenty years, corporate responsibility and ethical standards have been under fire. We have seen the Enrons and Worldcoms lose their standing in the corporate world because of unethical behavior by their managers. This research will evaluate why it is important for all organizations to be ethical in all of their dealings and what needs to be done in the future to ensure that a viable organization will survive for the future in the global economy. This research is a case study based on a literature review of what constitutes corporate social responsibility and how the public views organizations and their management as it pertains to ethical standards. A survey asking consumers in Hawaii how they perceive organizations and how they perceive the ethical behavior of an organization and its leaders was conducted, as well.

Introduction

Corporate social responsibility “is the managerial obligation to take action that protects and improves both the welfare of society as a whole and the interest of the organization” (Cereto, 1997). Milton Friedman states that “decision makers are acting ethically if they follow their firm’s self-interest” (Hartman, 1998). The role of an organization is to survive and make a profit. The way Friedman sees it, if a manager’s only concern is for the welfare of society, then the business would suffer. Without a decent profit for its owners, the business would no longer exist. The organization’s employees, suppliers, and stockholders would suffer. The purpose of this research is to evaluate the perception of consumers on how they view corporate America and its managers.

The Importance of Social Responsibility in a Business Setting

Why should organizations be socially responsible? One reason is that federal regulations dictate companies conform to government mandates. The Clean Air Act of 1990 is an example of why organizations have to abide by the regulations imposed by the government. In the 1970’s, the DuPont Company, a producer of chemical
products, theorized that certain types of gases were contributing to the breakdown of the ozone layer. When it was confirmed that these chemicals were causing this problem, DuPont developed and produced chemicals that were environmentally friendly. Critics state that DuPont was pressured to find a solution to the problem because of pressures from government legislation and from the environmentalists (Cereto, 1997).

Woller (1996) states that Adam Smith “never advocated the ‘mercenary’ society he describes in his Wealth of Nations.” In essence, Smith believed that a person’s behavior was dictated by a moral sense of doing what was ethically and morally right for society. As Woller sees it, managers are individually and ethically responsible for the decisions they make. A good example of an organization that showed it was truly concerned about the customer was Tylenol, which recalled its tainted products voluntarily after a customer died from ingesting some of them (Koehn, 1995). Patrick Primeaux (1995) eloquently made the point that when an organization is only concerned with the bottom line, the individual within the organization is just considered an expendable number that can be disposed of when needed.

Organizations soon begin to realize that without raising the ethical issues of how a profit was made, society will impose its values on the corporation. When we address the ethical issues facing organizations (Stainer etc., 1996), we should also look at the competitive environment and how “the balance and integration of performance, productiveness and stakeholder values can provide gains in both economic and moral terms” (Stainer etc., 1996). Stainer’s research concludes that organizations should be socially responsible. When they are, the quality of life for society will improve. In Stainer’s view, an organization can be socially responsible and make a decent profit for its stockholders at the same time.

**Unethical Behavior in an Organization**

Unethical behavior develops in an organization when management places a high value on profits alone and punishes the individuals severely when profits are not met. McCoy (1997) sees an organization unraveling when there is no shared value with the lower and upper levels of the organization and what transpires is a blurring of what is right and wrong.

When we address the ethical issues facing organizations, we should look at the competitive environment and how “the balance and integration of performance,
productiveness and stakeholder values…can provide gains in both economic and moral terms” (Stainer et al., 1996). Stainer’s research concludes that organizations can be socially and ethically responsible if clear guidelines from upper management are in place and are clearly stated to the lower levels of the organization. Ethical issues facing organizations that seem to be socially and ethically responsible have also not been free of controversy. The Body Shop faced immense scrutiny from the public when a scathing write-up in the magazine, Business Ethics, was published in September 1994. The article looked at the double layering of prices to their franchisees and how their “natural” products were not all natural in substance. There was questionable sampling of bacteria in their products, a failure to do tests to determine the quality and purity of their products, and issues of proper documentation of their tests. Also, the proper cleaning and sanitizing of their equipment and handling of consumer complaints were questioned (Bavaria, et al., 1994).

Organizations develop their ethical identity by how they respond to a given situation that is negative in nature. Johnson and Johnson is a classic example of how an organization pulled its products off the shelves and lost millions of dollars in the process. By doing this, consumers looked at the brand Tylenol as a brand of integrity. The Tylenol brand is now a household name of integrity and safety to the consumer. As Balmer, Powell, and Greyser (2011) stated, “Organizations can be deemed to have an ethical identity by virtue of CSR (Corporate Social Responsibility)/ethics being a prominent feature of their actions and behaviours; these that are reflected in their social connectedness, openness, critical reflexivity and responsiveness.”

Public Opinion on Corporate Ethics

When there is an economic downturn in the economy, does ethical conduct go to the wayside? Jaffe and Tsimerman’s (2010) research on Russian attitude on ethical behavior shows that “both students and managers believe that in an economic crisis, government and business corruption increases, and it is acceptable to compromise one’s ethics.” Kerin (2011) states that public opinion surveys show “that fifty-eight percent of U.S. adults rate the ethical standards of business executives as only “fair” or “poor”; ninety percent think white-collar crime is “very common” or ‘somewhat common”; Seventy-six percent say the lack of ethics in business people contribute to tumbling societal moral standards.” This ties into the distrust the public has with businesses and their executives. The World Economic Forum “praised the U.S. for its productivity, highly sophisticated and innovative companies, excellent universities and
flexible labor market.” However, it also cited a number of escalating weaknesses such as rising government debt and declining public faith in political leaders and corporate ethics (Heilprin, 2011).

There has been a grass roots movement on how business is done in the United States. Protests all across the nation have cited how Wall Street executives are greedy, with profits as their only motive instead of what is good for working class individuals. Protests have developed in Los Angeles, Boston, Chicago, Washington, D.C., and Portland. Frank Mello, a retired teacher from Massachusetts stated that “I’m here to demonstrate that we are stronger when we are united and Wall Street is as powerful as we allow them to be.” Others have expressed their distrust of corporate America. “It’s about time! We’re sick and tired of corporations making all the money,” stated Sean McMillan from Portland, Oregon (MSNBC, 2011).

Survey of How Consumers in Hawaii Perceived the Ethical Conduct of Businesses and Their Managers

A survey of Hawaiian residents 18 and over was conducted in June and July of 2011 that asked them how they viewed corporate America and the people that managed the organizations. Eight questions were asked with a range of “disagree very much” to “agree very much,” as shown in Table 1. The Likert scale gives a measure of average group responses. The purpose of this study was to determine how individuals perceived businesses to be ethical in their dealings with society and the public at large.

Four hundred questionnaires were given on Oahu to randomly selected individuals. The people that responded were asked to indicate their degree of agreement with the eight questions asked. Of the two hundred responses that were given back, 44% were male and 56% female; 39% were 18-26, 19% were 27-35, 18% were 36-45, 17% were 46-65, and 7% were 66 and older. This survey was an exploratory study using a non-probability method. Respondents were randomly selected asking their perception of how ethical managers and organizations were in the United States.

The question then arises as to why individuals perceive businesses and its managers as either ethical or unethical. Kerin list three perceived reasons for the decline in ethical behavior.

1. There is pressure on managers that make decisions within a society that has a diverse view of what is ethical.
2. Watchdog groups judge businesses with different values and interest.
3. Ethical business conduct has declined within organizations.

**Results**

This study shows all age groups felt that businesses’ ethical standards have diminished over the last twenty years and that an organization’s only concern is for profit and growth. There is a correlation showing that CEOs are paid too much compared to the average person’s salary and that there is a need for legislation that imposes strict penalties for improper behavior of the CEO in an organization. When asked if a CEO will do what is right and ethical for society, over 75% felt that the CEO would not do what was right and ethical for society. What is also interesting is that respondents of all ages, whether male or female, felt that a CEO should not have free reign on how their business is done without government intervention. Further study needs to be done to determine if this study is a mirror image of what society wants or if it is because of the downturned economic situation in the United States.

Kaler’s (2000) research evaluated whether CEOs’ unethical conduct was strictly economic or for self-interest. As Kaler stated, “This possibility presents a very clear exception to the rule that business self-interest can be spoken of as “economic in some more or less pecuniary sense. Money is involved but it is being valued neither for itself nor for what it can by, but rather for what it signifies by way of achievement.”

Survey 2010: Consumer perception pertaining to the ethical standards of businesses and CEOs

Please circle: Male, Female

Island you live on: Oahu, Maui, Kauai, Big Island

Age: 18-26, 27-35, 36-45, 46-65, 66-plus

Please mark “x” in the box with the number that best represents your opinion about each question.

1= Disagree very much 4=Agree slightly
2=Disagree moderately 5=Agree moderately
3=Disagree slightly 6=Agree very much

Table 1. Survey 2010

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<th>No</th>
<th>Question</th>
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<td>1.</td>
<td>I trust what a CEO states to the media.</td>
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<td>2.</td>
<td>I see ethical standards of large corporations diminishing during the last twenty years.</td>
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<td>3.</td>
<td>An organization’s only concern is profit and growth.</td>
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<td>4.</td>
<td>An organization is ethical as long as there are rules and regulations to keep them in line.</td>
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<td>5.</td>
<td>CEOs are paid too much compared to the average person’s salary.</td>
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<td>6.</td>
<td>I would support legislation that imposes strict penalties for improper behavior of the CEO in an organization.</td>
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<td>7.</td>
<td>A CEO should have a free reign on how their business is done without government intervention.</td>
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<td>8.</td>
<td>A CEO will do what is ethically right for society.</td>
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Summary and Conclusion

The two hundred respondents that completed the survey all felt that the CEOs of major corporations were paid too much and supported legislation that would impose guidelines of what a CEO can or cannot do. This correlates to the position that CEOs will not do what is ethically right for society but will maintain profits for their organization at whatever it costs. It is important for an organization to make a profit. Unfortunately, organizations soon begin to realize that without raising the ethical issues of how that profit is made, society will impose its values on the corporation. While this study was limited to respondents from Hawaii, each respondent had a keen understanding of what flaws they saw, whether accurate or not, on the ethical behavior of the organization and management within the organization. This research, although exploratory in nature, gives a clear picture of the distrust that individuals have of corporations and their management team in the United States. “When people
or things are valued for their contribution to increased profit margins, they are identified numerically and treated as such (Primeaux, 1995).

This research shows the need for corporations to develop a clear vision of what is acceptable and not acceptable within an organization and how their actions affect the views of individuals in society. As McKinney, Errson and Neubert (2010) stated, “organizational leaders are likely to benefit from making ethical expectations clear by employing an ethics code…a code of ethics is a critical component of an ethical infrastructure that is likely to contribute toward developing an organizational character that can maintain or restore a firm’s ethical reputation in the eyes of its stakeholders.”

The results of this research were exploratory in nature. This research shows that corporate America needs to develop a system in which they are accountable to society, not just to their stockholders. Further research should be done on whether further government intervention is the answer to the growing distrust of corporate American corporations and their CEOs. The results of this study should further generate a hypothesis which can be tested on the relationship of corporate America to society in general.

References


