

**AGENDA WEEK 6**  
**FALL 2014**  
**MGMT 5990, CORPORATE RESPONSIBILITY AND SOCIETY**  
**WEBSTER UNIVERSITY**

1. Contact information:

Professor: Bill Griffin

Residence: Savannah

Daytime workplace: Home office

Office phone: 912-349-7989

Cell phone: 912-667-1970

Personal e-mail: [billgriffin@theleadershipcenter.com](mailto:billgriffin@theleadershipcenter.com) **Please use this one.**

Webster e-mail: [williamgriffin88@webster.edu](mailto:williamgriffin88@webster.edu)

2. Turn back WA-5 paper.

3. Discuss. The National Football League finds itself in a major controversy. The League has been criticized for being “too soft” on players who were accused of behavior that might be described as assault (e.g., wife punching, child spanking). This might be characterized as an ethical concern, a problem of business ethics. Given that we already have an elaborate system of criminal justice in the USA, should employers also become more aggressive and supplement the efforts of the law enforcement system? Should the NFL be suspending players? Should they be punishing players who have not yet been put on trial and convicted? Thinking more generally, how should misdeeds done away from the workplace fit into a company’s ethics policy?

Discuss. Several years ago, I was working in an engineering company. Dan, a fellow who worked for me, developed a drug problem. He characterized it as a “headache problem” that often made it impossible for him to come to work. The company did not fire him, and they did not report him into the police. Instead, they got him involved in their Employee Assistance program, which seemed to involve counseling. Given that the employee was breaking criminal laws, did the company have an ethical obligation to reported Dan to the police? In terms of business ethics, what should the company have done? Incidentally, the company was very strict about drug use on construction projects. Using a “zero tolerance rule,” they did regular drug testing, and they terminated employees who failed drug tests. Dan and I were working in an office building, not a construction site, so the zero tolerance rule did not apply to him. What happened to Dan? He resigned from the company so that he could focus on curing his “headache problem.” I had a concern that he would end up spending his pension money on drugs.

4. Reading assignment: Prior to class, read the following:

- Textbook Chapter 6

- Hardin, G. (1968-12-13). "*The Tragedy of the Commons*". *Science (AAAS)* 162 (3859): 1243–1248. This is a famous presentation/article, and it is used to stimulate discussions in seminars and workshops on ethics, population growth, and environmental topics. It was published in 1968, when effective birth control measures were still coming into widespread use in developed countries. This was a time when the US was becoming interested in environmental protection, leading to the first Earth Day in 1970 and the passage of several environmental laws. If you want read more on this topic, there is some interesting discussion in Wikipedia: [http://en.wikipedia.org/wiki/Tragedy\\_of\\_the\\_Commons](http://en.wikipedia.org/wiki/Tragedy_of_the_Commons)
- In the 1960s, A. O. Hirshman published a book called *Exit, Voice and Loyalty*. This book discusses a model in which people have two options when they are unhappy with a situation – complain or leave. Consider these choices in the context of a shareholder in a company who is unhappy with the company’s behavior on an ethical issue. Read the following discussion of Hirschman’s concept in Wikipedia:

[http://en.wikipedia.org/wiki/Exit,\\_Voice,\\_and\\_Loyalty](http://en.wikipedia.org/wiki/Exit,_Voice,_and_Loyalty)

- Rajiv Sethi is a professor at Columbia who operates a blog. He prepared a commentary on Hirschman’s ideas. Read:

<http://rajivsethi.blogspot.com/2010/04/astonishing-voice-of-albert-hirschman.html>

5. Writing Assignment 6. WA-6. Prepare a Draft Ethics Policy for the organization where you work. What do you believe the organization, and the people in it, should do and should not do? **Do not use your organization’s existing ethics policy. Assume they do not have a policy now, and you are drafting one for them.** 600 words. You can earn up to 100 points. Come to class prepared to discuss during Week 6. You will submit your Draft Ethics Policy on Week 6. The instructor will provide review and comment, and return your paper on Week 7. Then you will prepare a Final Ethics Policy and submit it during Week 8. WA-8. You will be able to earn an additional 100 points on WA-8. **Ultimately, this is a 200-point assignment, the biggest of the term. You need to take it seriously.**
6. Week 6 discussion in class:
  - Externalities: the Tragedy of the Commons.
  - A. O. Hirshman: Exit, Voice and Loyalty
  - Student ideas about ethics policies for their organizations
7. Discuss the textbook. Chapters 5 and 6. Example problems from the textbook

## 8. News clips for Week 6

- *Cargo pilots at risk as FAA plays politics.* This is an editorial. Last week we discussed the trucking industry and its efforts to resist regulation that would discourage driving by tired drivers (sleep deprived drivers). Industry has fought back the government's effort to strengthen trucking regulations. This article addresses the Federal Aviation Administration, which is a safety agency. In January they adopted new rules that will make it tougher for airline pilots to become sleep deprived. These rules apply to pilots of big planes carrying passengers. However, the agency has created an exemption, and these pilot fatigue rules do not apply to pilots of air freight companies. Let's think about it this way: If the rules apply to all air freight carriers, won't that create a "level playing field"? We might have to pay 50 cents more to send a package to France, but the industry would be safer. I can afford that, and I am willing to do it. These rules, if applied to air cargo carriers, would not force anyone out of business. Let's think about it another way. We are not only concerned about the safety of passengers. We need to think about people on the ground when a plane crashes. When a cargo plane crashes into a school, can we justify that by saying, "It was carrying no passengers, so we allowed the pilots to fly in a sleep deprived state."
- *GM lawyers hid fatal flaw, from critics and one another.* This article appeared in the New York Times in June. It describes the corporate culture inside GM. The culture discouraged employees from exchanging information. I realize that lawyers have an obligation to defend the company when lawsuits are filed, so they like to control the flow of information. But in-house lawyers are supposed to work in an advisory capacity, not a decision making capacity. However, in this case, the lawyers were making policy decisions about exchange of information between employees, and this prevented the communication of important information to people who had a need to know. I think the lawyers were overstepping their advisory role.

This article identifies Raymond DeGregorio, an engineer. He was a middle manager who learned of the ignition switch safety defect and changed the design for future car models. But he did not change the part number. In GM's bureaucracy, that meant upper management was not informed. They did not evaluate a possible need for a recall. They did not inform the federal government. They did not recall existing cars in which defective ignition switches were installed. Why did DeGregorio do this? I am speculating, but I believe he was concerned that he would be embarrassed if it became known that thousands of cars had been manufactured with defective ignition switches. He was a career

employee; maybe he had designed the original switches years earlier. Another possible explanation was that he thought he was trying to be a team player and help the company by covering up the issue while simultaneously fixing it.

One of the GM “rules” was to not take notes in certain meetings. I have seen this practice with investment bankers who are meeting with investors. Some of the bankers like to make deals by talking, not writing things down. Why? Later, the investor may become unhappy with the deal and file a fraud lawsuit. If nothing has been written down, there is no documentary evidence of what the banker said to induce the investor into the deal.

- *How to fix the corporate tax? Repeal it.* This is an opinion piece by a professor of economics. Our news media have been reporting about the practice of “inversion.” This is a term that describes situations where a corporation decides to change its country of incorporation. Some US based firms have been doing this. Halliburton moved to Dubai a few years ago. Sometimes they do it to lower their tax bill; if they pay less taxes they can pay more income to shareholders (remember Friedman?). Each country has its own approach to taxing corporations. There seem to be a variety of tax rates. It appears that most countries use a territorial system, meaning that they try to tax economic activity that occurred in their country. The US has an unusual approach, and we use a worldwide corporate tax on all income made by US firms in all countries; this seems like a “bigger bite of the apple.” Part of the debate is ethical. Is it ethical for a US firm to move its headquarters to, say, London in order to lower its tax bill? Some people say that doing such a thing is a breach of patriotic duty. Other people say that the firm has a fiduciary duty to go through this inversion process (remember Friedman?). Some writers are advocating that the US should “level the playing field” by adopting the territorial approach used by most other countries, and we would only tax income earned in the US. The author wants us to go further than this.

What is a “US firm?” IBM is registered in the US, and it seems to be regarded as an American company, but they have more employees in India than in the US. In fact, IBM is a global company that happens to locate its headquarters organization in the US. I worked for Fluor Corporation for 15 years. Actually, we had 800 corporations and companies in about 80 countries. When we went into a new country, we typically became registered and incorporated there. Were we still an American company? Our headquarters were in California, so we described ourselves as a “California company,” but our main holding company was incorporated in Delaware.

The column mentions Learned Hand, one of the most famous judges of the 20<sup>th</sup> Century.

One other thought might be of interest. One of the principles that drove the American Revolution was “no taxation without representation.” The colonists were not allowed to vote, yet they were taxed. Corporations are in the same situation. They are taxed, but they are not allowed to vote in elections; only people (natural persons) can vote. My brother, who is otherwise a liberal, believes that corporations should not pay taxes. Instead, they should pay their money to shareholders and employees, and they should pay the taxes (because they can vote).

- *Just 13, and working risky 12-hour shifts in the tobacco fields.* One of the great steps forward during the period 1900 to 1970 was the passage of laws on child labor and worker safety. This article discusses a situation in the tobacco industry where regulatory protections seem to have “fallen through the cracks.” Tobacco fields are not legally classified as a hazardous environment, even though nicotine and agricultural chemicals are present. Rules prohibit very young people from working in non-farm situations (like working as a cashier at McDonalds), but these young people are allowed to work in agricultural situations. The article mentions that 10-year olds are working in tobacco fields, sometimes 12 hours per day.

There are a couple of forces at work here. One is the “family farm.” There are about a million family farms in the US. There is a tradition that farm kids work on the family farm. I did it when I was six years old (e.g., loading hay, feeding livestock). Farmers have a strong lobby, and they are opposed to child labor laws, workers compensation laws and other standards. In turn, farmers have been largely successful in winning regulatory exemptions for farm work in the area of child labor, occupational safety and health, and environmental protection (e.g., the pollution that is plaguing Lake Erie largely comes from agricultural chemical runoff; industrial companies would not be allowed to dump this stuff into the Lake). The other factor at work is the contracting/ subcontracting process. Big companies are highly visible, so they usually comply with the standards. They sign contracts with suppliers (small companies), and the contract language usually requires suppliers to comply with rules on child labor and worker safety. However, many of these suppliers are “below the radar” of regulatory agencies, and they do not comply with the standards. Ethical question: Are the big companies ethically required to perform audits of their subcontractors to

determine whether they are complying with contract terms and following regulations for child labor and worker safety. Think about the building collapse in the Bangladesh factory, in which a Bengali firm was working under a contract with a US firm, but the Bengali firm ignored many of the contract terms related to worker safety.

- *Hating the game.* This comes from The Ethicist, a column that runs most weeks in the Sunday New York Times Magazine. The author is a newspaper writer, not a professional ethicist. People write in, and The Ethicist responds. In this case, The Ethicist believes that football is dangerous, the players and we know that, so it is not unethical for us to watch it. I seem to be developing a different view. Here are some of my concerns. (1) Despite all the protective equipment that players wear, there are more injuries than in the past, and severe injuries of many kinds (NFL linemen have the shortest life expectancy of any profession). (2) I don't think the eight-year old kids who play Pee Wee football understand the risks. I think the sport is glorified, which influences people to ignore the risks. (3) I think many pro football players are drugged. I mean things like steroids to make them stronger and faster. I also mean "uppers" that make them more aggressive.

Let me tell you about boxing. I used to watch it on TV. I knew it was dangerous. Over a period of a few years, I saw three people killed in the ring. They died right on camera. I decided that boxing is not merely dangerous, it is *deadly*. By watching boxing, I was supporting the sport. So I do not watch boxing now. There are other things I can do is I want to be entertained.

- *If a company won't talk, its former employees will.* This is from The Haggler, a columnist for the New York Times Business Section. He gets complaints from customers of companies, and he tries to get a response from the company, because he wants to present a balanced view. In this case, he is looking at Conns, a company that sells electronics. It looks like they are eager to sell things on credit, and some of the customers have very poor credit ratings. (Does this remind you of the behavior of the lenders before the Great Recession, when mortgages were granted to people who were poor credit risks?) Conn's interest rates are very high, in the range of 25 percent. The Better Business Bureau gets lots of complaints on them. Is the store using ethical practices? They think so. I don't. What to do? Don't shop there.
- *How health care systems stack up.* This is an editorial. A survey looked at eleven countries, including, USA, Britain, Switzerland, and eight others. The US has the

highest per capita cost of health care, over \$8,000 per person. Yet we rank low in areas like life expectancy. In the USA, middle class and rich people get adequate health care, but poor people do not, thus their life expectancy is shorter than other Americans. In turn, the US life expectancy is shorter than many developed countries. I see this as an ethical issue. We are the wealthiest country in the world, but we are not taking care of the health of, say, 20 percent of our people. Should we?

- *T-Mobile accused of bogus charges.* The Federal Trade Commission brought legal action against cell phone carrier T-Mobile. The federal Communications Commission is investigating them. The issue is “cramming,” a term for the practice of billing for unauthorized services. I have run into things like this, and I believe many companies are unethical in this regard.

Let me provide a couple of personal examples. (1) I was on a trip to Mexico for a week. I took my Verizon cell phone with me with the intent of checking messages at my South Dakota office phone. It turns out that Verizon has no service in Mexico, and my phone simply would not work there. Nevertheless, Verizon charged me \$30 for “roaming charges.” I received no value for the \$30 roaming charge. (2) I bought a phone answering machine from Circuit City. I purchased a \$30 extended warranty, and the salesperson said, “If it breaks, just bring it back, and we will give you a new one.” My machine did break, so I brought it back to the store service desk and asked them to give me a new machine. They told me, “Go over to the sales floor. A salesperson will give you a new machine.” So I walked over to the sales floor. I told the salesperson that I wanted a new answering machine per the terms of the extended warranty. He walked away and did some paperwork. Then he handed me a new phone machine. I looked at the paperwork. He had, without asking me, sold me an extended warranty on the new machine for \$30. I said to him, “Why would you charge me for something I did not ask for?” He responded, “You had an extended warranty before, so I figured you wanted to buy one on the new machine.” I think something else was happening. I think he was a commission salesperson who was not paid anything to handle product returns and exchanges. So, when he did a warranty return, he sneakily sold the customer a warranty so that he could generate some commission income from the little transaction. This left a bad taste in my mouth. I stopped shopping at Circuit City. When the store went broke, I was not disappointed.

9. For week 7. From the Syllabus.

Reading Assignments: Prior to class, read the following:

- Textbook Chapter 7
- The Best American Manifesto. A consolidation of the ideas behind the Occupy Wall Street movement in 2011.
- One of the legal community's responses to corporate social responsibility issues is the creation of a new form of organization: Benefit corporations and Certified B Corporations. Review website: <http://www.benefitcorp.net/>. Come to class prepared to discuss.

Writing Assignment 7: Prepare one 600-word analysis on one of the topics below. Turn it in during Week 6 class. Come to class prepared to discuss. You can score up to 100 points on this assignment.

- Writing Assignment 7. Option A. WA-7A: Marketing Prozac and Paxil. Hooker (p. 66-68). Submit a written evaluation based on the facts of this case as presented in the textbook and employing the generalization, utilitarian and virtue tests presented in the textbook. 100 points. Come to class ready to discuss. Submit during Week 6 class session.
- Writing Assignment 7. Option B. WA-7B. Select a topic of interest to you. The only requirement is that it focus on corporate social responsibility from the perspective of **someone who works for a company** (i.e., an executive, a middle manager, or an everyday worker). You can base it on some readings that you have found. You can base it on a situation that you have encountered. You pick the topic. Prepare a 600-word paper. Come to class prepared to discuss. You can score up to 100 points for your paper. Submit your paper during class in Week 6.

Week 7 discussion in class:

- Prozac and Paxil
- Big Pharma
- Best American Manifesto
- B Corporations. Benefit Corporations
- Student-selected CSR topics (WA-6,B)
- Stakeholder approaches