

RBUS 402 Student Readings - 2005

**RAAD-RETURNING ADULT ACCELERATED DEGREE PROGRAM**

**SOCIAL RESPONSIBILITY  
IN BUSINESS  
RBUS 402**



**EDGEWOOD COLLEGE**

**STUDENT READINGS PACKET**

# **WEEK 1 HANDOUTS**

## HOW BUSINESS ETHICS IS GOOD FOR BUSINESS\*

**Developing a “culture of trust”** enhances an organization’s **reputation** and relationships with customers, employees, suppliers, investors and local community

Research in Business Ethics and Social Responsibility has found that ethical firms are more likely to have (A) **increased efficiency** in daily operations and (B) **higher profits** due to:

- (1) Increased Customer Satisfaction, Trust and Loyalty
- (2) Increased Employee Satisfaction, Trust and Loyalty
- (3) Cost Reductions due to less organizational politics, less need for supervision, lower turnover, lower recruiting costs, and better decision making
- (4) Increased Product Quality

**A person’s ethics is generally formed by early 20’s. So why study business ethics?**

- It has a positive impact organizational performance
- The values learned from family, religion and school may not provide specific guidelines for complex organizational decisions
- Not everyone agrees on what is ethical or unethical
- Many people with limited business experience suddenly find themselves making decisions about product quality, advertising, pricing, sales techniques, hiring practices and pollution control
- It sensitizes business people to moral issues and increasing social expectations
- Although people are generally very good, organizational time and financial pressures results in some employees cutting ethical corners

\* Modified from O.C. Ferrell, John Fraedrich & Linda Ferrell (2005) *Business Ethics: Ethical Decision Making and Cases*, sixth edition, Boston: Houghton Mifflin Company.

## OUR VALUES

### **Communication**

We have an obligation to communicate. Here, we take the time to talk with one another ... and to listen. We believe that information is meant to move and that information moves people.

### **Respect**

We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness and arrogance don't belong here.

### **Integrity**

We work with customers and prospects openly, honestly, and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.

### **Excellence**

We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.

### DEVELOPING A CODE OF ETHICS

- 1) No institution or person is perfect. We all have our faults. This is a blessing, not a curse, as we have our entire lives to continually improve our ethical well-being. By yourself, on a piece of paper answer the following two concerns:
  - A) Reflect on an incident, or series of incidents, at work that represented an ethical dilemma, something that troubled your conscience. What was it? What moral principle was violated (always be honest, keep promises)?
  - B) What decision made by someone at work was one of the following:
    1. Contrary to the firm's interests
    2. Contrary to industry standards
    3. Contrary to national laws
    4. Not to the greatest good of the greatest number of people affected by it
    5. Disrespectful toward other human beings
- 2) Honoring confidentiality, and protecting the anonymity of the company and those involved, share your answers to “A” and “B” above in small groups of 3 or 4.
- 3) As a group, discuss how to close the gap between the “ideal” and “actual” relationships.
- 4) Develop a policy statement that includes:
  - a. Statement of the ideal standard
  - b. Description of how the ideal standard will be obtained, monitored, and rewarded.

## Five Ethical Theories

**EGOISM:** How does the action relate to me? If the action furthers my interests, then it is right. If it conflicts with my interests, then it is wrong.

**SOCIAL GROUP RELATIVISM:** How does the action relate to my social group (peers, friends, etc.)? If the action conforms with the social group's norms, then it is right. If it is contrary to the social group's norms, then it is wrong.

**CULTURAL RELATIVISM:** How does the action relate to the national culture, particularly its laws? If the action conforms with the law, then it is right. If it is contrary to the law, then it is wrong.

**UTILITARIANISM:** How does the action relate to everyone who is affected by it? If the action is beneficial to the greatest number of people affected by it, then it is right. If it is detrimental to the greatest number, then it is wrong.

**DEONTOLOGY:** How does the action relate to my duty to become an ideal human being who treats others in the way that I would want to be treated? Does it treat every stakeholder truthfully and with respect and integrity? If it does, then it is right. If it does not, then it is wrong.

### Applying Ethical Theories to Decision Making\*

*Instructions:* Answer Questions 1 through 6 to gather the information necessary for performing an ethical analysis. Based on this information, develop a policy option that has the strongest ethical basis.

1. Who are all the people affected by the action (stakeholder analysis)?
  2. Is the action beneficial to me (egoism)?
  3. Is the action supported by my social group (social group relativism)?
  4. Is the action supported by national laws (cultural relativism)?
  5. Is the action for the greatest good of the greatest number of people affected by it (utilitarianism)?
  6. Are the motives behind the action based on truthfulness and respect/integrity toward each stakeholder (deontology)?
- *If answers to Questions 2 through 6 are all “yes,” then do it.*
  - *If answers to Questions 2 through 6 are all “no,” then do not do it.*
  - *If answers to Questions 2 through 6 are mixed, then modify your decision.*
    - *If answers to Questions 5 and 6 are “yes,” this action is the most ethical. You may need to modify this decision in consideration of any “no” answer to Questions 2 through 4.*
    - *If answers to Questions 5 and 6 are “no,” this action is the least ethical. Modify this decision in consideration of these objections.*
    - *If answers to Questions 5 and 6 are mixed, this action is moderately ethical. Modify this decision in considerations of objections raised by Questions 5 or 6. You may need to further modify this decision in consideration of any “no” answer to Questions 2 through 4.*

\* Denis Collins & Thomas O’Rourke (1994) *Ethical Dilemmas in Business*, Cincinnati, Ohio: South-Western Publishing Company.

### The Ethics of Capitalism

On the 1-6 scale below, with “1” being very ethical and “6” being very unethical, circle the number that represents how ethical you think free-market capitalism is?

1	2	3	4	5	6
Very Ethical	Ethical	Slightly more ethical than unethical	Slightly more unethical than ethical	Unethical	Very Unethical

Why did you believe this? Defend the number you chose.

<b>IS CAPITALISM ETHICAL?</b>	
<b>Adam Smith (1723-1790): YES, Capitalism is Ethical</b>	<b>Karl Marx (1818-1883): NO, Capitalism is Unethical</b>
1) Allows for Economic Freedom and Liberty (Egoism & Deontology)	1) Selfish capitalists lie to consumers about value of product (Violates Deontology)
2) People are, for the most part, self-interested and not altruistic (Egoism)	2) Selfish capitalists lie to laborers about the value of their labor (Violates Deontology)
3) Division of Labor Helps Unskilled Laborers Develop a Skill (Egoism)	3) Most efficient factories typically pay the lowest wages (Violates Utilitarianism)
4) Encourages Efficient Allocation of Resources (Utilitarianism)	4) Rich get richer, poor get poorer (Violates Utilitarianism)
5) Society functions based on individual economic exchanges, where people learn what other people's needs are and voluntarily provide them (Utilitarianism)	5) Selfish capitalists exploit nations with lowest wage rates and least amount of environmental regulations (Violates Utilitarianism)
6) Increases general welfare and wealth of nation (Utilitarianism)	6) Selfish capitalists corrupt politics, legal system, education, religion, art and science (Violates Utilitarianism)
7) Requires a strong system of justice (Deontology)	7) Laborers become alienated from their work (work & life feels meaningless) (Violates Deontology)

**Adam Smith on why self-interest will not generate greediness and social harms, and why capitalists typically restrain the temptation to be selfish**

(1) Reason. We apply rationality to restrain our self-interested passions, on an individual and societal level.

(2) The Impartial Spectator.

- 1) our conscience
- 2) an imagined moral agent watching us
- 3) an imagined group of moral agents watching us
- 4) belief in God

## COMMON VALUES

**VALUES** defined: Beliefs of a person or social group in which they have emotional investment. What should be the nation's guiding beliefs?

Researchers have found the following list of **common values found in all cultures**, though cultures may rank them differently:

- Trustworthiness
- Respect
- Responsibility
- Justice
- Fairness
- Caring
- Liberty/Freedom

According to the **Council for a Parliament on the World's Religions** (1993), there is significant agreement among the major religions – Islam, Judeo-Christianity, Buddhism – on five principles that should govern human behavior in all realms of life, including business. These aspirations are:

- (1) Do unto others as you would have them do to you
- (2) Thou shall not commit sexual impropriety
- (3) Thou shall not steal
- (4) Thou shall not lie
- (5) Thou shall not kill

## POLICIES AND PROCESSES AIDING ETHICAL PERFORMANCE

Prepared by Professor Denis Collins, Business Department, Edgewood College, Madison, WI 53711, 608-663-2878, [dcollins@edgewood.edu](mailto:dcollins@edgewood.edu)

- Create a Code of Ethics that respects all stakeholders (owners, customers, employees, suppliers, government, natural environment)
- Employees annually evaluate the code of ethics by rating how well each stakeholder is respected, then praising accomplishments and exploring solutions to possible violations
- Ethics Hotlines
- Suggestion Systems for improving company or unit performance
- End day on TQM teams discussing what went right and wrong, and changes needed to be made.
- Gainsharing – Department Teams with measurable performance goals and group-Based Bonuses for achieving the measurable performance goals.
- Profit Sharing for all employees, vested over 5 to 10 years
- Highest quality and environmentally friendly product or service
- Put at least 3% of payroll into an employee pension plan
- Spend at least 2% of payroll on employee training and development
- Flexible work schedules for unique individual and family needs
- Clear performance evaluation criteria with employee feedback
- 360 Degree performance evaluations
- Continuously improve occupational safety and environmental compliance
- Purchase supplies locally
- Choose suppliers according to their ethical performance
- Limit number of hours an employee can work to 50 hours a week

# **WEEK 2 HANDOUTS**

## TEN COMMON RATIONALIZATIONS

### FOR UNETHICAL ACTS

AMENDED FROM JOSEPHSON INSTITUTE OF ETHICS ([www.josephsoninstitute.org](http://www.josephsoninstitute.org))

#### **(1) If It's Necessary, It's Ethical**

This rationalization rests on the false assumption that necessity breeds propriety. The approach often leads to ends-justify-the-means reasoning and treating non-ethical tasks or goals as moral imperatives.

#### **(2) If It's Legal and Permissible, It's Proper**

This substitutes legal requirements (which establish minimal standards of behavior) for personal moral judgment. This alternative does not embrace the full range of ethical obligations, especially for individuals involved in upholding the public trust. Ethical people often choose to do less than the maximally allowable, and more than the minimally acceptable.

#### **(3) It's Just Part of the Job**

Conscientious people who want to do their jobs well often fail to adequately consider the morality of their professional behavior. They tend to compartmentalize ethics into two domains: private and occupational. Fundamentally decent people thereby feel justified doing things at work that they know to be wrong in other contexts. They forget that everyone's first job is to be a good person.

#### **(4) It's All for a Good Cause**

People are especially vulnerable to rationalizations when they seek to advance a noble aim. "It's all for a good cause" is a seductive rationale that loosens interpretations of deception, concealment, conflicts of interest, favoritism and violations of established rules and procedures.

#### **(5) I Was Just Doing It for You**

This is a primary justification for committing "little white lies" or withholding important information in personal or professional relationships, such as performance reviews. This rationalization pits the values of honesty and respect against the value of caring. An individual deserves the truth because he has a moral right to make decisions about his own life based on accurate information. This rationalization overestimates other people's desire to be "protected" from the truth, when in fact most people would rather know unpleasant information than believe soothing falsehoods. Consider the perspective of people lied to: If they discovered the lie, would they thank you for being thoughtful or would they feel betrayed, patronized or manipulated?

**(6) I'm Just Fighting Fire With Fire**

This is the false assumption that promise-breaking, lying and other kinds of misconduct are justified if they are routinely engaged in by those with whom you are dealing.

**(7) It Doesn't Hurt Anyone**

This rationalization falsely holds that one can violate ethical principles so long as there is no clear and immediate harm to others. It treats ethical obligations simply as factors to be considered in decision-making, rather than as ground rules. Problem areas: asking for or giving special favors to family, friends or public officials; disclosing nonpublic information to benefit others; using one's position for personal advantage.

**(8) Everyone's Doing It**

This is a false, "safety in numbers" rationale fed by the tendency to uncritically treat cultural, organizational or occupational behaviors as if they were ethical norms, just because they are norms.

**(9) It's OK If I Don't Gain Personally**

This justifies improper conduct done for others or for institutional purposes on the false assumption that personal gain is the only test of impropriety. A related but narrower view is that only behavior resulting in improper financial gain warrants ethical criticism.

**(10) I've Got It Coming**

People who feel they are overworked or underpaid rationalize that minor "perks" — such as acceptance of favors, discounts or gratuities — are nothing more than fair compensation for services rendered. This is also used as an excuse to abuse sick time, insurance claims, overtime, personal phone calls and personal use of office supplies.

## **MACHIAVELLI ON POWER**

### ASSUMPTIONS ABOUT HUMAN NATURE

- 1) Wicked
- 2) Desire for Power
- 3) Paradox between not wanting to be oppressed, and oppressing others

### HOW TO OBTAIN POWER [STAGE 1]

- 1) Heredity
- 2) Virtue
- 3) Military Force
- 4) Fortune (Luck, \$)
- 5) Crime
- 6) Support of the Citizens of the Great

### HOW TO MAINTAIN TEMPORARY POWER AND SECURITY [STAGE 2]

- 1) Live Amongst the People
- 2) Establish Colonies of Loyal Citizens
- 3) Strong & Supportive Standing Army
- 4) Be Protector of Lesser Powers
- 5) Weaken the Existing Powerful
- 6) Attack Foreign Threats First
- 7) Alliances with Friends
- 8) Bring Disorder and Resolve It
- 9) Put in Cruel Person for Dirty Work, then Replace
- 10) Special Case for Democracies

### HOW TO MAINTAIN PERMANENT POWER AND SECURITY [STAGE 3]

- 1) Keeping People Inspired
- 2) Strong Army and Don't Be Hated
- 3) Managing the Paradox Between The Great and The People
- 4) Mean Between Art of War and Amenities
- 5) Mean Between Liberality and Parsimony
- 6) Mean Between Cruelty and Mercy
- 7) Be Held in High Esteem
- 8) Surround yourself with capable and faithful ministers
- 9) Listen to the wise men, not the flatters
- 10) Take counsel when you want to, not when others want it
- 11) Be a very broad questioner
- 12) Be a good listener
- 13) Become angry at people who are hesitant to talk with you
- 14) Be wise, don't just rely on the wisdom of others

**MACHIAVELLIAN SURVEY**Richard Christie and Florence I. Geis, 1970, *Studies in Machiavellianism*.

Circle the answer that most closely resembles your attitude for each of the following 10 statements using the following 1-5 Scale. The more honest you are the more helpful the information you will receive.

1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree

	S D	D	N	A	S A
1. The best way to handle people is to tell them what they want to hear.	1	2	3	4	5
2. When you ask someone to do something for you, it is best to give the real reason for wanting it rather than giving reasons that might carry more weight.	1	2	3	4	5
3. Anyone who completely trusts anyone else is asking for trouble.	1	2	3	4	5
4. It is hard to get ahead without cutting corners here and there.	1	2	3	4	5
5. Honesty is the best policy in all cases	1	2	3	4	5
6. It is safest to assume that all people have a vicious streak, and it will come out when they are given a chance.	1	2	3	4	5
7. Never tell anyone the real reason you did something unless it is useful to do so.	1	2	3	4	5
8. One should take action only when it is morally right.	1	2	3	4	5
9. It is wise to flatter important people.	1	2	3	4	5
10. All in all it is better to be humble and honest than important and dishonest.	1	2	3	4	5
11. P.T. Barnum was very wrong when he said there's a sucker born every minute.	1	2	3	4	5
12. People suffering from incurable diseases should have the choice of being put to death painlessly.	1	2	3	4	5
13. It is possible to be good in all respects.	1	2	3	4	5
14. Most people are basically good and kind.	1	2	3	4	5
15. There is no excuse for lying to someone else.	1	2	3	4	5
16. Most people more easily forget the death of their father than the loss of their property.	1	2	3	4	5
17. Most people who get ahead in the world lead clean, moral lives.	1	2	3	4	5
18. Generally speaking, people won't work hard unless they're forced to do so.	1	2	3	4	5
19. The biggest difference between most criminals and other people is that criminals are stupid enough to get caught.	1	2	3	4	5
20. Most people are brave.	1	2	3	4	5

To obtain your "Mach" score:

- 1) **Score A:** Add the number you have circled for questions 1, 3, 4, 6, 7, 9, 12, 16, 18, 19.
- 2) **Score B:** For statements 2, 5, 8, 10, 11, 13, 14, 15, 17, 20, **reverse** the numbers you have checked: 5 becomes 1, 4 becomes 2, 3 remains a 3, 2 becomes 4, and 1 becomes 5. Then add the number of the reversed scores.
- 3) **Add** your "Score A" total and your "Score B" total. This is your "Mach" score.
- 4) The higher your score, the more Machiavellian attitudes you express. Among a random sample of American adults, the national average is 50.

### The Seismologist's Decision

You are the chief seismologist at one of the leading research facilities in North America. For a number of years, you have been working on perfecting a method for predicting major earthquakes on the West Coast. You report to the Director of the research center. The organization is dependent on government agency funds in the form of research grants along with funding from corporate interests. Recently, you have developed a sophisticated technique that you believe is able to forecast, within 80% confidence, the likelihood of the occurrence of an earthquake during a 48-hour period. The results of a rigorous study that you have just completed indicate that a 7.3-magnitude quake will hit one of four fault lines in Southern California within the next 2 days. Three of the faults are in less populated areas where major damage will be relatively low. However, the fourth fault is the San Andreas, which, if affected, would result in significant damage to structures and a considerable amount of human casualties.

*What is your ethical responsibility regarding the sharing of this information? Listed below are five alternative strategies. Place “#1” next to the action you would take in this situation, and then rank order the remaining choices by putting “#2” next to your second preference, and continuing until placing “#5” next to your last preference.*

Strategy C: Refer to the procedures and policies manual published by the research institution. If the organization has a policy regarding the responsibility for the disclosure of information, you should follow these procedures.

Strategy S: Without discussing your findings, hypothetically ask colleagues in your field what they would do in a similar situation. Seek the advice of experts like yourself to confirm your decision; avoid actions that are not supported by your peers.

Strategy D: The information must be shared with the media immediately. Just notifying the research director is not sufficient. If the research director doesn't inform the media, you must do so because the public must be able to prepare for the high likelihood of an earthquake.

Strategy E: You must be very careful about the dissemination of your research findings. There is a 20% probability that the quake will not occur, and even if the quake does occur sharing information could be harmful. You will likely be held responsible for the chaos and panic that may result. Your career is at stake; you cannot afford to be wrong. Make sure the data is absolutely correct and then tell the research director.

Strategy U: You need to calculate the expected costs associated with the quake, factored by the probability of the earthquake occurring. If the costs are minimal, then tell the research director but not the media. But if the costs are significant, then you must tell the media if the research director doesn't.

### Kohlberg's Stages of Moral Development and Ethical Theories

AGE GROUP	STAGE OF MORAL DEVELOPMENT	ETHICAL REASONING
Mature Adulthood	<b>Stage 6: Universal Ethical Principles</b> – Justice, Equality, Fairness for Everyone, Universal Human Rights	Deontology
Mature Adulthood	<b>Stage 5: Prior Rights, Social Contract, Utilities</b> – Human Rights	Deontology, Utilitarianism
Adulthood	<b>Stage 4: Social System</b> – Duty to society's customs, traditions, laws	Cultural Relativism
Early Adulthood, Adolescence	<b>Stage 3: Mutual Interpersonal Expectations</b> – Well-being of friends and coworkers	Social Group Relativism
Adolescence, Youth	<b>Stage 2: Reward Seeking</b> – Self-interest, fairness to me, reciprocity	Egoism
Childhood	<b>Stage 1: Punishment Avoidance</b> – Obedience to rules due to fear of authority	Egoism

#### FEATURES

- Pass through one-stage at a time
- Can stop at any stage
- Admire one stage up
- Consider people two stages up as naïve
- Most managers stop progress at Stage 3, laws & customs (Stage 4) are nuisances
- Purpose of education is aimed at Stages 5 & 6

## LOGICAL ARGUMENTS

ARGUMENTS consist of PREMISES leading to CONCLUSIONS.

PREMISE: Reasons given in support of a conclusion.

Premise: That person is blind.

Conclusion: Therefore that person needs a guide when crossing the busy street.

FALLACY: Drawing an improper conclusion from the premise.

COMMON FALLACIES (Adapted from S. Morris Engle, 1976, *With Good Reason: An Introduction to Informal Fallacies*, New York: St. Martin's Press.):

**Naturalistic Fallacy:** Occurs when something is identified as being good or desirable because it appears to be a natural characteristic ("Is implies Ought").

- Because people are self-interested, they should only pursue their own self-interests.

**Fallacy of Sweeping Generalization (faulty deduction):** Occurs when a general rule is applied to a specific case that the rule is not applicable to because of its special features.

- People should be free to make their own decisions, so it is wrong for the government to take Jones' gun away even if Jones is mentally unstable.

**Fallacy of Hasty Generalization (faculty induction):** Occurs when an isolated or exceptional case is used as the basis for a general conclusion that is unwarranted.

- My first boss at work was an idiot, all bosses are idiots.
- Denis is Irish and Italian, so let's order him some beer and pizza.

**Fallacy of Bifurcation:** Occurs when one presumes that a distinction is exclusive and exhaustive, when other alternatives exist.

- Companies can either make a profit or be socially responsible.

**Fallacy of Question-Begging Epithets:** Occurs when slanted language is used to reaffirm what we wish to prove but have not proven yet.

- How can you believe the statistical analysis provided by corrupted researchers living off tobacco industry grants?

**Fallacy of Ad Hominem:** Occurs when an argument diverts attention away from the question being argued by focusing instead on those arguing it.

- How can you support national health care, which only naïve liberals support?

**Fallacy of Appeal to Authority:** Occurs whenever an idea is justified by citing some source of expertise as a reason for holding that idea.

- How can you support banning cigarettes when your economics professor would disagree with you?

## DISCUSSING ETHICAL DILEMMAS AT WORK

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**STEP 1:** Form small groups around common job tasks and have them read the organization's "Code of Ethics." If none exists, write on the board that organizational members are expected to treat owners, company property, employees, customers, suppliers, the government, and the natural environment with utmost respect and integrity.

**STEP 2:** Each small group thinks about a troubling situation where stakeholders have not been treated with utmost respect and integrity. As a team, compose a one-paragraph scenario summarizing the troubling situation, changing names of the people involved and other specifics to protect confidentiality. End the dilemma with the questions: "What would you do? Why?"

**STEP 3:** Small group leader presents the troubling situation to the entire workshop.

**STEP 4:** After asking clarifying questions, workshop participants write down what they would do if faced with that troubling situation and why.

**STEP 5:** Small group leader asks the other workshop participants for a range of answers to the "What would you do?" question, and writes them on the board.

**STEP 6:** Workshop participants vote on which answer is the most appropriate response. Write the number of votes next to each answer.

**STEP 7:** Ask several people with the minority viewpoint to defend their choice, explaining why their answer is better than the other choices.

**STEP 8:** Small group leader facilitates the ensuing discussion. After a wide variety of opinions have been shared, try to reach a consensus on what would be the most appropriate response to the troubling situation.

## **WEEK 3 HANDOUTS**

**ENRON ETHICAL DILEMMAS**

**Copyrighted: Professor Denis Collins, Edgewood College, [dcollins@edgewood.edu](mailto:dcollins@edgewood.edu)**

- 1) Review Key Enron Executives – Lay, Skilling, Fastow
- 2) Dilemma #1: You are Jeff Skilling – Should you seek federal approval to change from traditional accounting techniques to mark-to-market accounting techniques?
- 3) Dilemma #2: You are Andy Fastow – Should you create a Special Purpose Entity (SPE) with Merrill Lynch to purchase generators from Enron?
- 4) Dilemma #3: You are Sherron Watkins – Should you confidentially provide a *Wall Street Journal* reporter with information about Enron’s accounting scandal?
- 5) Dilemma #4: You are Ken Lay – Should you notify stockholders about Enron’s \$7 billion in hidden losses or \$1.2 billion in acceptable losses?
- 6) Dilemma #5: You are the Judge – What sentence (in years) would you give to Lay, Skilling, Fastow, Causey (Chief Accounting Officer) and Watkins?

**Three Key Enron Executives – Ken Lay, Jeff Skilling and Andy Fastow**

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**Ken Lay Background – Enron CEO and Chairman, 1985-2001**

- Ken Lay is a very nice guy who doesn't like conflict and wants to make other people happy; earnest and optimistic person. He had Bill Clinton's knack of making whomever he spoke with feel like s/he was the center of the universe.
- Born 1942, grew up in rural Missouri poverty and didn't have indoor plumbing until age 11. Father a traveling Baptist preacher and unsuccessful salesperson. Family moves to Columbia, Missouri so children can attend University of Missouri, where father works as library security guard.
- Majors in economics, an ardent free market Republican who impressed his teachers. Enlists in Navy during the Vietnam War and assigned to Pentagon as an economist. Hard work and connections through his economics professor results in jobs at Federal Power Commission in 1971 in Washington D.C. and undersecretary of energy in the Interior Department.
- More hard work and connections gets him job as Vice President for a Florida gas company and becomes president in 1981. A few years later he becomes CEO of Houston Natural Gas, which changes its name to Enron following a 1985 merger.

**Jeffrey Skilling Background – CEO Gas Bank 1990-1996, COO 1997-2001, CEO 2001**

- Jeff Skilling is extremely intelligent, but also arrogant, aggressive, and a bully.
- Born to a middle class Pittsburgh family in 1953; father a college graduate and salesman. Family moves to blue-collar town outside Chicago. Intellectually bored with high school, at age 14 he begins working full-time after school for a local cable television station. Saves \$15,000 while working during high school, invests all of it in the stock market, buys stock in his father's company, and loses all \$15,000 he invested.
- Attends Southern Methodist University (Texas) on a scholarship, majors in finance.
- Severely injured during summer job, wears body cast, collects \$3,500 in worker's compensation. Invests all of it in high-risk bonds, and lost it all again in the stock market.
- Graduates from SMU in 1975, quickly becomes bored with corporate job, applies to Harvard Business School for MBA. Finishes near the top of his class and takes job with McKinsey & Company, nation's premier business consulting firm. He works out of its Houston branch. Enron is his biggest consulting client.
- In 1990, hired by Ken Lay to develop a new division called the Gas Bank.

**Andy Fastow – Finance Group 1991-1997, Chief Financial Officer 1998-2001**

- Andy Fastow is considered a slick wheeler dealer, a bully who throws temper tantrums.
- Born 1961, grows up in New Jersey, father a buyer for drug stores and supermarkets. As student council president, negotiates for better grades with high school teachers. Attends Tufts University in Boston, majors in finance, and marries an heir to a Houston fortune.
- He and wife work for a Chicago bank and obtain their MBA degrees at night from Northwestern University. Winner of 1989 "Deal of the Year" Award.
- In 1990, hired by Skilling for his skill in securitizations. Within three years he was an Enron Vice President. In 1998 becomes Enron's Chief Financial Officer.

### Enron Dilemma #1: Mark-to-Market Accounting

Copyrighted: Professor Denis Collins, Edgewood College, [dcollins@edgewood.edu](mailto:dcollins@edgewood.edu)

- 1985: Houston Natural Gas merges with InterNorth Natural Gas Company of Omaha, Nebraska. Renamed Enron. Ken Lay becomes CEO and Chairman of the Board.
- Enron has massive debts and needs major new source of revenue to avoid going bankrupt.
- Lay's management style: hire the most talented college graduates at high salaries and let them run the day-to-day operations while he solicits customers, lobbies politicians, and participates in a lot of civic activities.
- Enron owns regional natural gas pipeline. Natural gas is sold on the spot market, with prices fluctuating every month. Skilling recommends that Enron create a "Gas Bank" that engages in long-term contracts with natural gas buyers and sellers; sells loans to suppliers for gas exploration. Natural gas much cleaner source of energy than coal (coal causes global warming), so this is good for the United States and the world.
- Skilling hires a bunch of people just like himself ("Skillingites") to run the operation, such as Andy Fastow, who are extremely intelligent, creative, competitive, young, ambitious, ruthlessly single-minded, egotistical, arrogant, and greedy MBA workaholics. They want to be left alone to apply their special talent and get rich by doing so, hopefully retiring by age 40 as multi-millionaire because pay is linked to performance and stock price. The more profit the company makes, the higher the stock price rises, and the richer everyone becomes. Gas Bank is immediately successful.

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#### **Ethical Dilemma: Change from traditional accounting to mark-to-market accounting?**

It is 1991 and **you are Jeff Skilling, the CEO of Enron's very successful Gas Bank Division.** Employees are mostly financial traders operating within a traditional gas pipeline company, selling 10-year contracts for \$1 billion to public utilities. Skilling complains that his Division is undervalued because of an outdated accounting system.

Under the TRADITIONAL OIL-AND-GAS accounting system, Enron can only claim money customers pay Enron in 1991 (this year) as revenue. If customer signs ten-year contract for \$1 billion, the Gas Bank can only claim \$100 million revenue in 1991 even though the other \$900 million is guaranteed. This misleads potential investors about the division's true economic value.

The Gas Bank division operates more like a Wall Street trading company than a pipeline company. Trading companies use MARK-TO-MARKET accounting system that claims total value of a deal and then makes adjustments over time, profits (if deal value increases) or losses (if deal value decreases). Under MARK-TO-MARKET, the Gas Bank can claim all \$1 billion revenue in 1991 even though it will only receive \$100 million in cash from the deal in 1991 with the remaining \$900 million being paid over the following nine years.

Mark-to-market will result in higher recorded revenue for 1991, which will result in higher stock prices and higher yearly bonuses, which are a function of increases in revenue and stock price.

The only problem is that Enron needs to obtain special permission from the Federal Government to use the NEW accounting system. **If you were Skilling**, would you keep the TRADITIONAL OIL-AND-GAS accounting system or lobby the Securities and Exchange Commission to adopt the MARK-TO-MARKET accounting system to the Gas Bank Division operations? **Why?**

### **Enron Dilemma #2: Special Purpose Entities**

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- Many companies create Special Purpose Entities (SPEs) to minimize expensive and risky investments. Rather than purchasing new airplanes, airline can create an SPE with assistance from outside investors. The SPE can purchase the airplanes and then lease them to the airline.
- Accounting-wise, SPEs are treated as separate entity rather than a subsidiary of a company if it meets two independence criteria: (1) 3% of its equity comes from an outside investor and always be at risk, and (2) its management is independent of the sponsoring organization.
- As a separate entity that Enron has an ownership claim in, all of the debt associated with its activities can be put on the SPE balance sheet while a proportionate amount of profits can be claimed by Enron.
- Example: 1993 Fastow created an SPE called JEDI, funded with \$250 million in cash from CalPERS pension fund and \$250 million worth of Enron stock. The stock was used as collateral for loans. JEDI invested in start-up energy firms and then sold them when they reached maturity for significant profits, profiting both CalPERS and Enron.

#### **Ethical Dilemma: Should you create an SPE to purchase generators from Enron?**

It is late December 1999 and **you are Andy Fastow, Enron's Chief Financial Officer**. You report to your long-time mentor, Jeff Skilling, who was promoted to Enron's Chief Operating Officer because of the tremendous success achieved by Enron's Gas Bank. Skilling has told all executives that they must increase revenue and meet end-of-the year quarterly projections.

During the past eight years you have created more than two thousand SPEs, funded by Enron stock and at least 3% cash from outside investors, as required by accounting rules. Instead of Enron borrowing money, the SPE borrows money from banks at good rates and then legally purchases assets for, and from, Enron. SPE investors consistently earn very good returns on their investments. Sales to SPEs enable Enron to meet quarterly revenue projections, which increases the company's stock price.

It is nearly the end of the fourth quarter and an important division Wall Street investors monitor closely has not yet met its quarterly profit goal. A potential customer is willing to purchase 3 electricity-generators on a barge off the coast of Nigeria for \$28 million, which would generate a \$12 million profit for Enron. But, the deal won't be completed until May.

Your finance team proposes that Enron create an SPE called Ebarge funded with \$7 million cash from Merrill Lynch, the nation's largest brokerage firm that earns millions from Enron in fees, representing the outside equity at risk and the rest with Enron stock. Ebarge could then borrow \$21 million in cash to buy the barges for \$28 million prior to December 31. Enron could claim \$12 million in profits from the sale for the fiscal year. The cash revenue would increase the value of Enron's stock. Ebarge could then sell the barges to the potential customer or back to Enron in May for \$28 million. The Ebarge SPE would then be terminated. Merrill Lynch would be given \$8 million for its original \$7 million investment, a \$1 million profit.

**If you were Andy Fastow**, would you create Ebarge with Merrill Lynch so the SPE could borrow money to purchase the barge for \$28 million, enabling Enron to claim a \$12 million profit and meet its quarterly projections? **Why?**

### Enron Dilemma #3: Anonymously Notifying the Public

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- In 1999, Enron claimed \$40 billion in revenue, \$9 billion more than it made in 1998.
- In 2000, Enron claimed \$100 billion in revenue, making the company #7 on the Fortune 500 list. The huge increase in revenue made Enron a “hot” stock to buy during the year, with the stock peaking at \$90 a share in August 2000.
- Skilling takes over for Lay as CEO in February 2001; Lay remains Chairman of the Board. Enron’s stock selling at \$80 a share.
- Late 2000 and early 2001, Enron receives negative publicity for price gouging during California electricity crisis, and international operations and broadband initiatives fail; nonetheless, by June 2001, Enron is on the verge of becoming #1 on the Fortune 500 list.
- But in reality, a lot of the revenue Enron claimed to be making was really money customers promised to pay Enron in the future (mark-to-market accounting) and significant amounts of debt were hidden in SPEs designed by Fastow.
- Because Enron did not have as much money as everyone thought it had, Enron had a very difficult time finding cash to pay its operating expenses and interest on debts.
- On August 16, 2001, with Enron’s stock down to \$43 a share, Jeff Skilling unexpectedly quits his new job as Enron’s CEO for “personal reasons” and replaced by Ken Lay.

#### **Ethical Dilemma: Should you confidentially provide a *Wall Street Journal* reporter with information about Enron’s accounting scandal?**

It is mid-August 2001 and **you are Sherron Watkins, an accountant and investment portfolio analyst who works for Andy Fastow**. Skilling’s unexpected resignation shocks all Enron employees and Wall Street investors. He had been CEO for only six months, a job he fought to attain for nearly ten years. A lot of people are very suspicious about the real reason why so talented an executive as Skilling resigned, including *Wall Street Journal* investigative reporters.

You document that several Fastow SPEs make phony purchases from Enron and hide a tremendous amount of debt that, if known by investors, would result in a massive stock sell off. You suspect that maybe Skilling quit because he was Fastow’s mentor and probably realized that Enron could quickly collapse if this accounting scandal was known by the public.

Ken Lay requests that employees submit questions and comments for him to address at an all-employee meeting to be held the following day. You submit an anonymous letter warning him about Fastow’s misuse and abuse of accounting standards and ask Lay what actions he will take to stop the illegal activities. When Lay doesn’t address your comment at the “all-employee” meeting, you tell him directly after the meeting that you wrote the anonymous letter and want an answer. Lay still fails to act on your well-informed and documented concerns.

Executives have a legal obligation to honestly convey information to stockholders, a law Lay and other high level Enron executives are clearly violating. To do otherwise is committing a fraud.

You get back to your office and listen to a voice message from a *Wall Street Journal* investigative reporter raising questions about a potential accounting scandal at Enron. The reporter promises confidentiality; your name will not appear in any newspaper articles. **If you were Sherron Watkins**, would you tell the reporter about the accounting scandal? **Why?**

**Enron Dilemma #4: Notifying Stockholders about Hidden Losses**  
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**Ethical Dilemma: Should you notify stockholders about the real amount of hidden losses?**

It is early October, 2001 and **you are Ken Lay, Enron's CEO and Chairman of the Board.** Several employees have notified you that there are billions of dollars of hidden losses that do not appear anywhere on Enron's balance sheets. The accounting books for the third quarter closed on September 30 and Richard Causey, the Chief Accounting Officer, informs you that he and Fastow, with Skilling's knowledge, had hidden losses totaling nearly \$7 billion.

Enron's stock has been declining all year. So have most other stocks as a result of the collapse of the dot.com industry, an economic recession, and the September 11<sup>th</sup> World Trade Center tragedy. Enron's stock is selling in the upper \$30s, down more than 60% since the beginning of the year.

Corporate executives have a legal obligation to honestly convey information to stockholders. The third quarter earnings report is scheduled to be released on October 16. If Lay announces to the public that Enron has hidden losses totaling \$7 billion, there will be a massive stock sell off. Everyone will want to dump the stock because management can't be trusted and Enron's credit rating will be ruined, causing Enron to default on its loans. The stock, now selling at \$33, could easily collapse below \$10. Enron employs more than 20,000 people and many of them would lose their jobs. If such an unexpectedly large loss was announced, the government would investigate, resulting in another sell off. Enron would likely be forced to declare bankruptcy.

You speak with several Enron executives and they feel confident that Enron could reasonably explain losses totaling \$1.2 billion. The stock price will decline if a \$1.2 billion is announced, but it wouldn't destroy the company, which would happen if a \$7 billion loss was announced.

You wonder if you should announce the \$1.2 billion in losses or all \$7 billion in hidden losses. **If you were Ken Lay**, how much of a loss would you tell the public, \$1.2 billion or \$7 billion? **Why?**

### Enron Dilemma #5: Determining Legal Punishments

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Based on information below, if **you were the judge**, fill in chart for jail term you would give:

Person	Jail Term	Explain why more or less than other people in chart
Ken Lay, CEO and Chairman		
Jeff Skilling, COO and CEO		
Andy Fastow, CFO		
Richard Causey, CAO		
Sherron Watkins, accountant/finance		

**Former Enron CEO and Chairman of the Board Ken Lay:** As CEO of Enron from 1985 to 2001, Lay is ultimately responsible for what happens in the company. He did not know of the illegal accounting activities until August 2001, after Skilling resigned. He did not tell the public when he soon thereafter found out about Enron's problems.

**Former Enron COO and CEO Jeff Skilling:** As COO of Enron from 1997-2001, Skilling relied on Andy Fastow to find creative financial ways to help divisions meet quarterly projections. Several employees complained to him about Fastow's activities and suggested their illegality. After becoming CEO in February 2001, Skilling forced Fastow to step down as general partner of the most contentious SPEs.

**Former Enron Chief Financial Officer Andy Fastow:** While working under Skilling in the early 1990s, Fastow created several SPEs that guaranteed profits to investors, a clear violation of generally accepted accounting principles governing SPEs. As CFO in 1999, Fastow created two SPEs where he served as general partner, which earned him management fees and profits totaling \$45 million. These two SPEs enabled Enron to hide debt and declare unearned revenue.

**Former Enron Chief Accounting Officer Richard Causey:** Causey worked very closely with Fastow in the creation of SPEs. He showed Fastow how to use loopholes in the law to get around accounting regulations. He benefited from Enron's artificially high stock price, selling stock options worth millions of dollars. He also failed to inform Ken Lay and the Board of Directors about the accounting scandal until after Skilling resigned.

**Former Enron Portfolio Analyst Sherron Watkins:** While working under Fastow, Watkins realized that Fastow was engaged in illegal accounting activities. She informed Ken Lay after Skilling resigned in August 2001, when Enron's stock was selling at \$43 a share. She did not inform the public until after Enron declared bankruptcy on December 2, 2001, when Enron's stock was worthless. In 2002, *Time* magazine declared her "Man of the Year" for blowing the whistle on Enron.

### Federal Sentencing Guidelines for Organizations\*

The 1991 Federal Sentencing Guidelines for Organizations apply to all felonies and Class A misdemeanors that employees commit in association with their work. Organizations are held accountable for the conduct of their employees and for all business decisions and outcomes.

A company that lacks an effective ethical compliance program can incur severe penalties if an employee violates the law. The most common forms of business misconduct in the federal court system are fraud, environmental violations, and price fixing/market allocation (antitrust violations). After the victim is made “whole” again, organizational fines for misconduct can be reduced by 95% or increased as high as four times a specified amount based on its due diligence and ethical compliance program.

The United States Sentencing Commission developed seven mandatory steps that companies must implement to show due diligence and ethical compliance. They are:

- (1) **A code of conduct** that communicates required standards and identifies key risk areas for the organization.
- (2) Ethical compliance program **oversight by high-ranking personnel** (for example, vice president of human resources or ethics officer).
- (3) No one with a **known propensity to engage in misconduct** should be put in a position of authority.
- (4) A **communications system for disseminating** standards and procedures (ethics training and publications).
- (5) A communications system for employees to **report misconduct without fearing retaliation** (for instance, an anonymous hot line or ombudsman).
- (6) If misconduct is detected, the firm must take **appropriate and fair disciplinary action**. Sanctions must be appropriate for the offense.
- (7) After misconduct has been discovered, the organization must take steps to **prevent similar offenses in the future** (such as continuous improvement of the ethical compliance program).

\* O.C. Ferrell, John Fraedrich and Linda Ferrell, 2005, *Business Ethics: Ethical Decision Making and Cases*, Boston: Houghton Mifflin Company.

**SARBANES-OXLEY ACT OF 2002**

Passed by Congress in response to public outrage over accounting scandals, the Sarbanes-Oxley Act establishes new rules governing public corporations.

<b>MAJOR PROVISIONS OF THE SARBANES-OXLEY ACT*</b>
1. Requires the establishment of a Public Company Accounting Oversight Board in charge of regulations administered by the Securities and Exchange Commission.
2. Requires CEOs and CFOs to certify that their companies' financial statements are true and without misleading statements.
3. Requires that corporate board of directors' audit committee consist of independent members who have no material interests in the company.
4. Prohibits corporations from making or offering loans to officers and board members.
5. Requires codes of ethics for senior financial officers and registered with the SEC.
6. Prohibits accounting firms from providing both auditing and consulting services to the same client without the approval of the client firm's audit committee.
7. Requires company attorneys to report wrongdoing to top managers and, if necessary to the board of directors; if managers and directors fail to respond to reports of wrongdoing, the attorney should stop representing the company.
8. Mandates "whistle-blower" protection for persons who disclose wrongdoing to authorities.
9. Requires financial securities analysts to certify that their recommendations are based on objective reports.
10. Prohibits the two senior auditors from working on a corporation's account for more than five years; other auditors are prohibited from working on an account for more than seven years.

\* Modified from O.C. Ferrell, John Fraedrich & Linda Ferrell (2005) *Business Ethics: Ethical Decision Making and Cases*, sixth edition, Boston: Houghton Mifflin Company.

<b>STEPS FOR DEVELOPING AN ETHICAL COMPLIANCE AUDIT</b>	
<b>Step 1</b>	Gain the CEO’s commitment.
<b>Step 2</b>	Appoint an ethics committee to guide the audit.
<b>Step 3</b>	Appoint an auditing team (auditors, key managers, and organizational development experts) that will develop questions to be used in examining the firm’s ethical performance.
<b>Step 4</b>	Diagnose the corporate culture and investigate designated functional areas, such as employee issues, community relations, customer relationships, and environmental practices.
<b>Step 5</b>	Analyze the mission statement and look for circumstances when the desired mission/goals and actual ethical performance do not coincide.
<b>Step 6</b>	Determine underlying reasons that ethical performance and organizational goals are not consistent.
<b>Step 7</b>	Collect relevant industry information, existing benchmark studies, and available information on competitors and industry ethical standards in each designated functional area.
<b>Step 8</b>	Interview relevant stakeholders who are involved in each functional area about their perceptions of the firm’s ethical and socially responsible performance.
<b>Step 9</b>	Compare internal data about ethical performance and external stakeholder perceptions.
<b>Step 10</b>	Write a formal report for company managers and the audit committee, and, if possible, obtain an external evaluation of the report.
<p>From Sandra Waddock and Neil Smith, “Corporate Responsibility Audits: Doing Well by Doing Good,” <i>Sloan Management Review</i>, Winter 2000, p. 79.</p>	

### CORPORATE INTEGRITY CHECKUP

**Prepared by Professor Denis Collins, Business Department, Edgewood College, Madison, WI 53711, 608-663-2878, [dcollins@edgewood.edu](mailto:dcollins@edgewood.edu).** Modified from crossroadsprograms.com

Benchmark your company's ethical health. Rate your company against the following 25 best practices in ethics management. Mark either "Yes, Not Sure, or No" according to your current situation. **At the end, count your total "Yes" answers.**

<b>CODES OF ETHICS</b>	<b>Yes</b>	<b>Not Sure</b>	<b>No</b>
1. Our company has an up-to-date code of ethics (or conduct) describing typical dilemmas in our industry, and that defines ethical work practices.			
2. Our company's ethics policies have been developed in consultation with employees and other stakeholders.			
3. All employees are trained in how to implement ethics code.			
4. Our company has published a set of values that reflect the expectation of ethical work practices.			
5. Our stated values note importance of external stakeholders.			

<b>DIALOGUE</b>	<b>Yes</b>	<b>Not Sure</b>	<b>No</b>
6. Questions of ethics are openly discussed in our company.			
7. Our people have a safe source of guidance (in addition to the boss!) if they have a question about ethics or law.			
8. Our people have recourse to a confidential third party if they perceive any wrongdoing by their peers or superiors.			
9. Our strategic planning process includes a discussion of personal and corporate values.			
10. The company's impact on a wide range of external stakeholders is part of our strategic planning process.			

<b>LEADERSHIP &amp; EMPOWERMENT</b>	<b>Yes</b>	<b>Not Sure</b>	<b>No</b>
11. Our company's commitment to ethics is reflected in specific actions, and not just rhetoric.			
12. Our managers demonstrate their understanding that ethical integrity trumps other business demands.			
13. There are clear consequences for those who do not adhere to our state ethics policies.			
14. Our people are encouraged to accurately portray the limitations as well as the benefits of our products/services.			

15. Our managers or other staff are authorized to withdraw a product/service if it is found to be hazardous to public health or safety, or conflicts with our code of ethics.			
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<b>HUMAN RESOURCES</b>	<b>Yes</b>	<b>Not Sure</b>	<b>No</b>
16. People in our company are well equipped to recognize and resolve ethical issues in our business.			
17. Ethical integrity is a critical factor when hiring and promoting people.			
18. Formal opportunities are provided for our people to review ethical issues with their peers, such as in orientation and training programs or facilitated meetings.			
19. Managers and executives receive extensive training in ethics as part of our leadership development program.			
20. Our managers are evaluated on their commitment to ethics, as well as other aspects of performance.			

<b>SYSTEMS</b>	<b>Yes</b>	<b>Not Sure</b>	<b>No</b>
21. Our incentive pay and career advancement system rewards ethical behavior, even if it costs us time, money or business.			
22. People engaged in unethical behavior do not receive incentive pay and career advancement.			
23. Our company systematically verifies the accuracy of claims made to customers about our products/services.			
24. Our key suppliers are systematically monitored for product quality, product safety, and humane work practices.			
25. Our Board of Directors has approved mechanisms to ensure compliance with our code and a schedule to revise the code on an ongoing basis.			

**Count your total “Yes” answers. If you scored:**

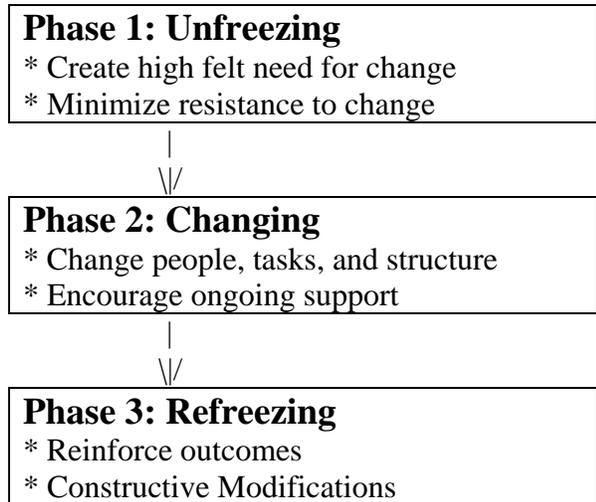
**15 to 25:** Well done! You’re ethical health is better than most companies. But of course there is always room for improvement!

**8 to 15:** Pretty good score! But you can be a lot healthier when it comes to managing business ethics.

**0 to 7:** Time to improve your ethical health score.

## **WEEK 4 HANDOUTS**

**How to Manage the Change Process: Lewin’s Change Model**



**Example**

“Current State”: Do not ever eat cow tongue

“Future State”: Eat cow tongue 3 times a week for a year

How to get from current to future state? – Biggest issue is “unfreezing current state”

Step 1: Write Current State

Step 2: Write Future State

Step 3: List Forces Against Change [Insert Arrows showing force preventing you from going from current state to future state]

Step 4: List Forces to Overcome the Resistance, Brainstorm

<b>CURRENT STATE OF PEOPLE:</b> Do not ever eat cow tongue		<b>FUTURE STATE:</b> Eat cow tongue 3 times a week	
<b>(2) Forces For Change</b>	<b>(1) Forces Against</b>		
Trick them to do it	Never did it before		
Add flavor	Gross taste		
Appeal to patriotism	Repulsive		
Education	How to prepare it?		
Persuasion	It’s bad		
Financial bonus			
“Dead Tongue Society”			
Movie Star eats food			

# **WEEK 6 HANDOUTS**

## ENVIRONMENTAL ISSUES

**What is U.S. Population?** 1900: 76 million; 2004: 294 million

**What is World Population?** 1900: 1.7 billion; 2004: 6.4 billion

**1990 – U.S. accounts for 36% of worldwide CO2 emissions.**

Fossil Fuels (coal, oil, natural gas) are burned to create energy, the burning of which releases carbon dioxide (CO<sub>2</sub>) that pollute our land, air, and water, and is the primary cause of global warming. Coal is the worse – compared to natural gas, coal releases twice the amount of CO<sub>2</sub> per unit of useful energy. **U.S. accounts for about 36% of worldwide CO2 emissions.**

**What is Global Warming?** [info from [www.ucsusa.org](http://www.ucsusa.org), Union of Concerned Scientists]

- Solar radiation passes through the earth's atmosphere
- Some of it is reflected back into the Earth's atmosphere
- Some of this solar radiation is absorbed by heat-trapping gases (including carbon dioxide and methane) that insulate the Earth, allowing life to flourish
- Earth's average surface temperature is 59 degrees Fahrenheit, 15 degrees Celsius
- Without insulation, earth's surface temperature would be 0 degrees Fahrenheit, killing life
- Driving a car, using electricity from coal-fired power plants, or heating homes with oil or natural gas releases carbon dioxide and other heat-trapping gases into the air
- Methane released in atmosphere from agricultural activities like growing rice and raising cattle
- Carbon dioxide in earth's atmosphere has increased 31% and methane 151% the past 150 years, trapping more solar radiation
- Trapping heat leads to cooling upper part of atmosphere, which destroys the protective ozone layer
- Ozone also depleted by human-made gases such as chlorofluorocarbons
- 1800, carbon dioxide accounted for 280 parts per million of atmospheric gases; now its 380 parts;
- Global average surface temperature has risen by about 1 degree Fahrenheit during 1900s, equivalent to half the change the previous 10,000 years (1.8 degrees); small change in surface temperature has a big impact on climate issues [a few degrees in temperature separates today from the ice age]
- Arctic region warming rapidly
- Rise in global average sea level and ocean water temperatures
- Intergovernmental Panel on Climate Change (2,500 scientists and risk experts) estimate a 2.5 to 10.4 degree Fahrenheit increase in earth temperature by 2100 if no major efforts undertaken to reduce greenhouse gas emissions

If temperatures continue to warm:

- melting glaciers will increase sea levels causing coastal erosion and flooding
- water spills over to wetlands, river deltas, and populated areas
- increase in mosquito and rodent population
- inland farmlands to suffer more draughts
- Altered weather patterns will cause more extreme weather patterns

**What is the impact on Wisconsin?**

- Wisconsin summers to become like Arkansas
- Wisconsin winters like Iowa
- Wisconsin Dells?
- Farming?

### INTERNATIONAL ENVIRONMENTAL AGREEMENTS

- 1992 Earth Summit in Rio Framework Convention on Climate Change – created systems for reporting data on emissions of greenhouse gases, but not targets or how to limit them.
- August 1997 the United States Senate voted 95 to 0 not to approve a climate treaty that:
  - (1) Did not also force developing countries to cut emissions and
  - (2) would result in serious harm to the U.S. economy
- December 1997 Kyoto Protocol - Set targets and timetables for 38 industrialized nations for average emissions of greenhouse gases during 2008-2112, but they would have to be ratified by national legislatures
  - U.S. accounts for 36% of industrialized nations' carbon dioxide emissions in 1990; Russia 17%
  - **Goal for Worldwide average: 5% below 1990 level**
  - European Union: 8% below 1990 level
  - Russia: 100% of 1990 level
  - U.S.: **7% below 1990 level**
- **Developing nations are excluded because it would restrain their progress; only those who have already caused and benefited from greenhouse gases are under the treaty.**
- Plan is to sell permits for carbon dioxide emissions [\$10 to \$20 per ton per year]; with money then allocated to fund more efficient technologies; nations are allocated a certain amount of permits and if they need more they must buy from another country, or if they need less they can sell them to those who need more
- Treaty goes into effect when signed by nations accounting for 55% of greenhouse emissions
- Clinton Administration agreed to seek ratification in November 1998 (two-thirds approval by states)
- But by end of 1999, U.S. emissions had risen 12% above 1990 levels and projections were for another 12% increase above 1990 levels by 2008; so the goal would now be a **30% reduction** and it can only be met through drastic action.
- By 2020, developing nations not regulated by Kyoto Protocol projected to account for 50% of greenhouse gas emissions
- March 2001 President Bush withdrew the U.S. from the Kyoto Protocol treaty
  - (1) Developing nations are excluded and they are some of the worst polluters. 9 of the top 20 polluters are developing nations, with China being #2 polluter and India #6.
  - (2) Will seriously harm the U.S. economy
    - Estimated \$397 billion reduction in GNP by 2010
    - Estimated loss of 2.4 million jobs
    - Electricity prices would rise 87%
    - Gas and utilities would rise \$2,500 per family
    - All these hurt the worst off the most
- November 5, 2004, Russia becomes 126<sup>th</sup> signer
- **February 2005: Kyoto Agreement goes into effect without the U.S.**

### CALCULATING YOUR ECOLOGICAL FOOTPRINT

How many people are in your household? \_\_\_\_\_

#### Car Energy Use:

##### Vehicle 1:

\_\_\_\_\_ miles driven per **Month/Year** (circle one)

\_\_\_\_\_ miles per gallon for vehicle OR is it: **small/medium/large-truck** (circle one)

##### Vehicle 2:

\_\_\_\_\_ miles driven per **Month/Year** (circle one)

\_\_\_\_\_ miles per gallon for vehicle OR is it: **small/medium/large-truck** (circle one)

#### Air Travel:

\_\_\_\_\_ miles traveled by airplane per **Month/Year** (circle one)

#### Electricity Use:\*

\_\_\_\_\_ kwh per **Month/Year** (circle one)

#### Home Heating:\*

Natural Gas: \_\_\_\_\_ therms per Year

Or Oil: \_\_\_\_\_ gallons per Year;                      Or Propane: \_\_\_\_\_ gallons per Year

#### **\*Local utility telephone hotline, extrapolate from last bill, or use MGE Website:**

<http://www.mge.com/home/rates/energyuse.htm>

- a) Click on "Log in Now" on bottom of page
- b) If already registered type in User ID and password; if not registered enter account number from a recent bill and dollar amount of the last bill and then establish User ID and password
- c) Click "View Energy Use Detail"
- d) Click "View Detail" under electric and gas accounts
- e) Copy down last full year or previous 12 months
- f) Can also click on hotlink "Calculate My Home Heating Rating" under gas detail by inputting square footage heated and decade house constructed.

#### **SUBMIT INFORMATION INTO ECOFOOTPRINT CALCULATOR AT:**

[www.nativeenergy.com/safeclimate\\_calculator.htm](http://www.nativeenergy.com/safeclimate_calculator.htm); I am 18 tons, and can offset with \$180 wind turbine

**THE NATURAL STEP FOR GREENING BUSINESSES**

<b>INDUSTRY’S SUSTAINABILITY LEARNING CURVE</b>					
	Prior to 1970s	<b>1<sup>st</sup> Era, 1970s: Compliance</b>	<b>2<sup>nd</sup> Era, 1980s: Beyond Compliance</b>	<b>3<sup>rd</sup> Era, 1990s: Eco-Efficiency</b>	<b>4<sup>th</sup> Era, 2000s: Sustainable Development</b>
				Product Stewardship, Environmental Cost Accounting, Integrated Management Systems	Design for Sustainability
			Stakeholder Participation, Total Quality Environmental Management Systems		
		Pollution Control/Compliance, Pollution Prevention and Waste Minimization			
<b>CORPORATE RESPONSE</b>	UNPREPARED	REACTIVE	ANTICIPATORY	PROACTIVE	HIGH INTEGRATION
<b>INDUSTRY GOALS</b>	None	<b>Regulatory Standards</b>	<b>Cost Avoidance</b> Impact Reduction, Pre-empt Regulation, Leadership, Protect Legitimacy, Partnerships, Competitive Edge	<b>Profit Center Approach</b> Eco-efficiency profits via ISO 14000 monitoring environmental policies, planning, implementation, corrective action, and review	<b>Explicit Mainstreaming of Environmental Goals</b> Design for Environment System, Environmental Cost Management, The Natural Step

- Brian Nattrass & Mary Altomare, 1999, *The Natural Step for Business: Wealth, Ecology and the Evolutionary Corporation*, British Columbia, Canada: New Society Publishers, p. 16.

Get on at the Engine Now and Lead the Way or Miss the Train

**The Telephone:** “The telephone has too many shortcomings to be seriously considered as a means of communication. The device is inherently of no value to us.” Western Union internal memo, 1876.

**Cars:** “The horse is here to stay, but the automobile is only a novelty – a fad.” President of Michigan Saving Bank to Henry Ford’s lawyer.

**The Radio:** “The Radio craze will die out in time.” Thomas Edison, 1922.

**Television:** “Television won’t last because people will soon get tired of staring at a plywood box every night.” Darryl Zanuck, Movie Producer, 20<sup>th</sup> Century Fox.

**The Beatles:** “We don’t like their sound, and guitar music is on the way out.” Decca Records executive declining a new group called The Beatles, 1962.

**Over-Night Mail Delivery:** “The concept of [overnight mail delivery service] is interesting and well-formed, but in order to earn better than a “C,” the idea must be feasible.” – A Yale [Not Harvard?] University management professor in response to Fred Smith’s idea for Federal Express.

**Computers:** “There is no reason anyone would want a computer in their home.” Ken Olson, president, chairman and founder of Digital Equipment Corp., 1977.

**Internet:** “In 1996 [the internet] will catastrophically collapse.” Robert Metcalfe, 3Com.

<b>COMPANY BENEFITS OF GOOD ENVIRONMENTAL MANAGEMENT SYSTEM</b>	
<b>Issue</b>	<b>Explanation</b>
Production Cost Savings	Eco-efficiency reduces energy and material costs of production
Lower insurance premiums	Insurance companies are including sustainable development initiatives in the underwriting process
Lower bank loan rates	Major banks conduct environmental risk analysis as part of lending money for mortgage and land acquisitions
Enhance due diligence protection	Environmental convictions and fines are increasing
Customer attraction and retention	Increasingly, customers are demanding higher environmental standards
Higher employee commitment	Environmental reputation enhances employee commitment and effort
Socially responsible mutual funds	Inclusion in increasing number of CSR fund screens affects share price
Better relations with community	Increases community acceptance of new project start-ups & expansions
Better activist and media relations	Negative activist attention creates long-term public relations problems
Industry self-regulation	Enhances trust and practical, cost-effective self-regulatory legislation
Personal Integrity	Personal commitment to good stewardship generates pride

- Brian Nattrass & Mary Altomare, 1999, *The Natural Step for Business: Wealth, Ecology and the Evolutionary Corporation*, British Columbia, Canada: New Society Publishers, p. 193 (revised)

<p align="center"><b>SUMMARY OF, AND RATIONALE BEHIND, THE NATURAL STEP (TNS) SYSTEM FRAMEWORK [A Common Framework All Organizations and Communities Should Apply]</b></p>		
<b>Problem</b>	<b>TNS Sustainable Society System Objective</b>	<b>If Sustainable Society Objective Is Not Met</b>
<p>#1 <u>Removal of Stored Deposits from the Earth:</u> We are removing too many substances from the Earth's crust.</p>	<p>#1: <b><u>Reduce wasteful dependence on fossil fuels, underground metals, and minerals.</u></b> Substitute certain abundant minerals for those that are scarce in nature and use all mined materials efficiently.</p>	<p>#1: The concentrations of substances within the earth will decrease and eventually reach limits beyond which unknown irreversible changes will occur.</p>
<p>#2 <u>Creation of Synthetic Compounds and Other Societally-Produced Materials:</u> We are producing too many synthetic compounds that are difficult for nature to breakdown.</p>	<p>#2: <b><u>Reduce wasteful dependence on chemicals and unnatural substances.</u></b> Substitute certain persistent and unnatural compounds with ones that are normally abundant or break down more easily in nature, and use all substances produced by society efficiently.</p>	<p>#2: The concentrations of unnatural substances in the ecosphere will increase and eventually reach limits beyond which unknown irreversible changes occur.</p>
<p>#3 <u>Ecosystem Manipulation:</u> We are increasingly interrupting the natural flow of ecosystems. Human activities need to work in harmony with the cyclic principle of land, water and wildlife.</p>	<p>#3: <b><u>Reduce encroachment on nature (land, water and wildlife).</u></b> Draw on resources from only well managed ecosystems; use them efficiently and minimize the manipulation of nature.</p>	<p>#3: Our health and prosperity will decline.</p>
<p>#4: <u>Unmet Socio-Economic Needs:</u> Human needs are not being met on a worldwide basis.</p>	<p>#4: <b><u>Meet human needs fairly and efficiently.</u></b> Use all our resources efficiently, fairly and responsibly so that the needs of all stakeholders – customers, staff, neighbors, people in other parts of the world, and people who are not yet born – stand the best chance of being met.</p>	<p>#4: Unless basic human needs are met worldwide through fair and efficient use of resources, it will be difficult to achieve the first three sustainable society system objectives.</p>

Brian Nattrass & Mary Altomare, 1999, *The Natural Step for Business: Wealth, Ecology and the Evolutionary Corporation*, British Columbia, Canada: New Society Publishers, p. 42 (revised)

<b>IKEA TEXTILES: FOUR GREEN STEPS TOWARDS GREATER ENVIRONMENTAL RESPONSIBILITY [Moving Up a Step Involves Fulfilling Additional or Tougher Requirements]</b>			
<b>First Small Step: Customer Product Stage</b>	<b>Second Small Step: Add Production Impact Stage</b>	<b>Third Small Step: Add Product Life Cycle Stage</b>	<b>Fourth Small Step: Add Raw Material Supply Stage</b>
Lead free, No cadmium, No PCPs, No AZO dyes, No PVC, Specific formaldehyde limits	Non-chlorine bleach, No organic solvents, Minimum heavy metal residue, Specific pH limits, Tougher formaldehyde limits	Water treatment system, No AZO dyes, No PCBs, Minimum pesticide residue	Certified organically grown; Entire chain from obtaining raw materials to finished product for customer is carried out under controlled conditions and with minimum impact on the environment

- Brian Nattrass & Mary Altomare, 1999, *The Natural Step for Business: Wealth, Ecology and the Evolutionary Corporation*, British Columbia, Canada: New Society Publishers, p. 62.

<p><b>IKEA Concepts/Targets</b> (<i>The Natural Step for Business</i>, pp. 56-57 )</p> <ul style="list-style-type: none"> <li>• <i>Renewable</i>: Change over to renewable raw materials and energy sources</li> <li>• <i>Degradable</i>: Use substances and materials that are easily broken down in nature and converted into new resources</li> <li>• <i>Nature</i>: Refrain from all unnecessary intrusions into nature and the eco-cycle</li> <li>• <i>Sortable</i>: Construct products so that constituent materials can be easily separated for recycling</li> <li>• <i>Save</i>: Always ask yourself whether you can avoid or cut back on your use of resources</li> <li>• <i>Quality</i>: Choose products with a long useful life, which can be repaired if they break</li> <li>• <i>Efficiency</i>: Plan use of materials, energy, technology, and transport to achieve maximum benefit for minimum expenditure of resources</li> <li>• <i>Reuse</i>: Reuse by-products, recycle, incinerate materials for energy use</li> </ul>
<p><b>Scandic Hotel Targets</b> (<i>The Natural Step for Business</i>, p. 84)</p> <ul style="list-style-type: none"> <li>• To the greatest extent possible, follow the principles of nature's cycle in our work</li> <li>• Develop products and services that use nature's resources as sparingly as possible</li> <li>• Choose raw materials and recyclable packaging</li> <li>• Strive to use environmentally safe and recyclable energy sources</li> <li>• Use a distribution system that puts less burden on the environment</li> <li>• Reduce waste and promote waste reduction</li> <li>• Choose, influence, and educate our suppliers to help us implement our environmental policy</li> <li>• Develop an environmental network of enthusiastic representatives from each hotel</li> <li>• Every year, review the environmental policy results and establish goals for further development</li> </ul>
<p><b>Mitsubishi Electric America Targets</b> (<i>The Natural Step for Business</i>, p. )</p> <p><u>Facility Level</u></p> <ul style="list-style-type: none"> <li>• Reduce energy use by 25% in three years</li> <li>• Reduce waste disposal by 30% in three years</li> <li>• Reduce tree-based paper use and purchase by 75% in two years and by 90% in three years</li> <li>• Eliminate the use of old growth/primary forest products in one year</li> <li>• Eliminate the use of chlorinated solvents in open systems in three years</li> </ul> <p><u>Product Level</u></p> <ul style="list-style-type: none"> <li>• Increase the use of recycled materials in products by 30% in three years</li> <li>• Reduce packaging materials by 20% in three years</li> </ul>

**GREEN BUSINESS PARK ZONE IN UMEA, SWEDEN  
BASED ON THE NATURAL STEP FRAMEWORK**

- Green Zone Business Park established in 2000 housing Ford Motor Company dealerships, gas station, car wash, convenience store, and McDonalds
- Designed for 100 percent renewable energy [electricity use down 60 percent], 100 percent reuse of storm water onsite [fresh water use down by 70 percent], and 100 percent reuse or recycle of waste by-products.
- One component of the business park's closed cycle loop serves as food for another component in park
- Geothermal pump helps heat buildings and heat recycling system recirculates heat through underground pipes to other buildings [heat from McDonald's cooking grills and heated water from mini-mart refrigeration system is redistributed through pipes to other buildings in the business park
- All building parts can be disassembled after their useful life; building wood from local forest
- Grass and plants grow on building roofs to insulate building in winter and cool it in summer
- Green roofs also absorb one-half the rainwater falling on them and serve as bird habitats
- Grass-and-gravel parking surface rather than asphalt; absorbs water and sent to retention pond which is piped into car wash, which recirculates 99 percent of post car-wash water
- Solar panels, skylights, light-pipes, motion sensors turns off lighting
- Instead of mechanical Heating, Ventilating, and Air Conditioning system, terrarium air filters clean and cool the building's interior air, add oxygen and plants absorb carbon dioxide; twice per hour, jets of water spray plant leaves; fresh air enters through underground duct that cools air in summer and heats in winter
- Electricity comes from a coastal windmill 15 miles away
- Sewage converted to purified fertilizer and used for farming
- Ford service center recycles oil and fluids for cleaning, lawn mowers or industrial engines; vegetable oil (not petroleum-based oil) lubricates hydraulic car lifts
- Each business educates suppliers to meet higher environmental standards

- Sarah James & Torbjorn Lahti, 2004, *The Natural Step for Communities: How Cities and Towns can Change to Sustainable Practices*, British Columbia, Canada: New Society Publisher, pp. 76-

<b>THE ENVIRONMENTAL CHANGE PROCESS FOR THE NATURAL STEP (TNS)</b>		
<b>Aspect</b>	<b>Objectives</b>	<b>Tools and Methodologies</b>
<b>Leadership</b>	CEO/COO support, Top management support, Engage other leaders	Ask CEO and others about their environmental vision for firm, Introduce top management to business case for sustainability, Request they convey message to rest of firm
<b>Vision and Strategy</b>	Develop the vision of a sustainable firm in a sustainable society	Integrate TNS framework into vision and strategy, Exercises to note “low-hanging” fruit and high-leverage areas, Financial modeling and environmental action plans
<b>Training, Education, Coaching</b>	Educate all employees, Coaching to embed principles into practice	Adapt TNS training materials to specific context/employees, Train the trainers and coaches, Games, booklets, videos, exercises
<b>Employee Involvement</b>	Team building activities, Encourage suggestions, Continual reinforcement	Teams focus on reducing wastes and resources used, Follow-through on employee suggestions, Friendly competition among employees, business units
<b>Practical Application &amp; Innovation</b>	“Low-hanging fruit,” Practical change ideas for immediate and long-term	Mechanisms for reviewing suggestions and innovations, Provide resources to experiment and try new ideas, On-going coaching and sharing lessons learned
<b>Feedback and Measurement</b>	Benchmark, track, measure, evaluate, feedback, reward results	Develop baseline measures, document, post results, Translate resource savings into financial language, Recognize and communicate achievements
<b>Influence</b>	Employees, Suppliers, Customers, Competitors, Shareholders, Community	TNS Workshops and partnerships with stakeholders, Booklets for customers, labeling of products, Annual reports, website resources
<b>Integrate into all business functions</b>	Make sustainability a normal business consideration	Adopt environmental management systems, Address at all meetings and include in all reports, Include in business plan, performance evaluation, and bonuses

- Brian Nattress & Mary Altomare, 1999, *The Natural Step for Business: Wealth, Ecology and the Evolutionary Corporation*, British Columbia, Canada: New Society Publishers, p. 152-153.

**ENVIRONMENTAL INDICATORS**

**BUILDINGS**

<b>ENERGY – Heating and Electricity</b>	
<b>Sustainable Characteristics*</b>	<b>Sustainable Indicators</b>
<p><u>Conserving</u>: Every effort made to increase energy-use efficiency.</p> <p><u>Generated from renewable resources</u>: Energy system runs on energy income (solar, wind, biofuels) not on energy capital (fossil fuels)</p> <p><u>Non-polluting</u>: Minimize pollution</p>	<ul style="list-style-type: none"> <li>• <u>Total and per Capita Energy Consumption</u>: BTUs and kilowatts per person.</li> <li>• <u>Consumption of Natural Gas vs. Coal on Campus</u>.</li> <li>• <u>CO2 Emissions</u></li> <li>• <u>Use of Alternative Fuels and Renewable Energy</u></li> <li>• <u>Energy Conservation Practices in Buildings</u></li> </ul>
<b>Some Checklist Items</b>	
<ul style="list-style-type: none"> <li>• Reduce heating</li> <li>• More efficient heating</li> <li>• Door and window insulation</li> <li>• Increase use of solar energy</li> <li>• Efficient lighting (compact fluorescent)</li> <li>• Not excessive lighting</li> <li>• Energy Star computers</li> <li>• Computers turned off at night and on weekends</li> <li>• Ask staff and other students for suggestions</li> </ul>	

<b>WATER</b>	
<b>Sustainable Characteristics*</b>	<b>Sustainable Indicators</b>
<p><u>Conserving</u>: Water not wasted.</p> <p><u>Non-polluting</u>: High quality drinking water used.</p> <p><u>Cyclical</u>: Water is captured and returned to nature.</p>	<ul style="list-style-type: none"> <li>• <u>Total and per Capita Water Consumption</u>.</li> <li>• <u>Ground Water Quality</u>: Level of VOCs and nitrates</li> <li>• <u>Waste Water Disposal</u>: Treatment for pollutants before entering lakes and streams</li> <li>• <u>Water Conservation Practices</u>: Efficient shower heads, irrigation system, rain gardens</li> </ul>
<b>Some Checklist Items</b>	
<ul style="list-style-type: none"> <li>• Low flow faucets</li> <li>• Low flow toilets</li> <li>• No leaky, dripping faucets</li> <li>• Ask staff and other students for suggestions</li> </ul>	

**AIR**

<b>Sustainable Characteristics*</b>	<b>Sustainable Indicators</b>
<u>Non-polluting:</u> Air is pure.	<ul style="list-style-type: none"> <li>• <u>Indoor Air Quality</u></li> <li>• <u>Smoking Policies Enforced</u></li> </ul>
<b>Some Checklist Items</b>	
<ul style="list-style-type: none"> <li>• Adequate ventilation</li> <li>• Acceptable temperature (not too hot in winter, not too cold in summer)</li> <li>• No molds, mildew, standing water</li> <li>• Control of airborne contaminants (dust, dirt, asbestos)</li> <li>• No smoking in or near building</li> <li>• Ask staff and other students for suggestions</li> </ul>	

<b>MATERIAL RESOURCES</b>	
<b>Sustainable Characteristics*</b>	<b>Sustainable Indicators</b>
<p><u>Conserving:</u> Products maintained, repaired, appropriately designed, recyclable materials used</p> <p><u>Non-polluting:</u> Manufactured with minimal pollution</p> <p><u>Minimum Waste:</u> Recycled after use</p>	<ul style="list-style-type: none"> <li>• <u>Total Waste Production:</u> Solid waste sent to landfill plus solid waste recycled</li> <li>• <u>Source Reduction of Toxic Materials Ordered</u></li> <li>• <u>Recycled Waste:</u> Percent of solid waste recycled (paper, plastic, metals)</li> <li>• <u>Paper Consumption per Capita</u></li> <li>• <u>100% post consumer chlorine free paper purchased</u></li> </ul>
<b>Some Checklist Items</b>	
<ul style="list-style-type: none"> <li>• Purchase recycled paper</li> <li>• Recycle paper, aluminum, glass, newspaper, cardboard, magazines</li> <li>• Reuse paper as scrap paper or printing drafts</li> <li>• Recycle printer cartridges</li> <li>• Green (nontoxic) cleaning materials</li> <li>• Latex (rather than oil-based) paint</li> <li>• Minimize and recycle chemicals in laboratories or art studies</li> <li>• Ask staff and other students for suggestions</li> </ul>	

**DINING SERVICES****Energy, Water, Air, Material Resource indicated above and**

<b>FOOD</b>	
<b>Sustainable Characteristics*</b>	<b>Sustainable Indicators</b>
<u>Healthy Diet</u> : Wholesome balanced food offering <u>Low Waste</u> : Food waste composted; packaging minimal; reusable eating and drinking implements <u>Regional Orientation</u> : Local foods purchased	<ul style="list-style-type: none"> <li>• <u>Dining Commons Diet</u>: Meets FDA's food pyramid</li> <li>• <u>Dining Commons Waste</u>: Efficient provision of food; food waste recycled</li> <li>• <u>Food Purchasing Policies</u>: Local sources and organic</li> </ul>
<b>Some Checklist Items</b>	
<ul style="list-style-type: none"> <li>• Purchase food from local farmers</li> <li>• Increase use of organic food</li> <li>• Compost food (give to local farmers)</li> <li>• Donate excess food to food pantries and homeless shelters</li> </ul>	

**GROUNDS**

<b>LAND</b>	
<b>Sustainable Characteristics*</b>	<b>Sustainable Indicators</b>
<u>Values the Native Biota</u> : Protects and supports native ecosystem <u>Respects Natural Processes</u> : Allows natural cycles and processes to operate <u>Conserves Green Space</u> : Protects natural, open spaces	<ul style="list-style-type: none"> <li>• <u>Percent of impervious surfaces, such as pavement and rooftops</u></li> <li>• <u>Native vs. exotic plants</u></li> <li>• <u>Pesticide use in land care</u></li> <li>• <u>Sustainable landscaping</u></li> </ul>
<b>Some Checklist Items</b>	
<ul style="list-style-type: none"> <li>• Limit pesticides</li> <li>• Limit use of pest sprays</li> <li>• Integrated pest management techniques</li> <li>• Compost leaf waste, garden clippings and grass clippings</li> <li>• Plant grass and shrubs to minimize soil erosion</li> <li>• Reasonable salt use on ice</li> <li>• Ask staff and other students for suggestions</li> </ul>	

<b>WATER</b>	
<b>Sustainable Characteristics*</b>	<b>Sustainable Indicators</b>
<p><u>Conserving</u>: Water not wasted.</p> <p><u>Non-polluting</u>: High quality drinking water used.</p> <p><u>Cyclical</u>: Water is captured and returned to nature.</p>	<ul style="list-style-type: none"> <li>• <u>Total and per Capita Water Consumption.</u></li> <li>• <u>Ground Water Quality</u>: Level of VOCs and nitrates</li> <li>• <u>Waste Water Disposal</u>: Treatment for pollutants before entering lakes and streams</li> <li>• <u>Water Conservation Practices</u>: Efficient shower heads, irrigation system, rain gardens</li> </ul>
<b>Some Checklist Items</b>	
<ul style="list-style-type: none"> <li>• Water late at night, early in the morning</li> <li>• Rain gardens</li> <li>• Low flow faucets or hoses</li> <li>• Low flow toilets</li> <li>• No leaky, dripping faucets</li> <li>• Water conserving washing machines</li> <li>• Ask staff and other students for suggestions</li> </ul>	

### TRANSPORTATION

<b>TRANSPORTATION</b>	
<b>Sustainable Characteristics*</b>	<b>Sustainable Indicators</b>
<p><u>Clustered</u>: Densely populated areas enhance human interaction and green space.</p> <p><u>Efficient Transportation Use</u>: Public transportation</p>	<ul style="list-style-type: none"> <li>• <u>Car Dependence</u>: Percent use of cars</li> <li>• <u>Use of Bicycles and Car Pools</u></li> <li>• <u>Green Space vs. Parking Space</u></li> <li>• <u>Transport-Related Safety</u>: Accident rates</li> </ul>
<b>Some Checklist Items</b>	
<ul style="list-style-type: none"> <li>• Rideshare system</li> <li>• Special parking or lower rates for rideshare users</li> <li>• Increase use of public transportation via bus subsidy</li> <li>• Facilitate bicycle use – sufficient and adequate bike racks near buildings</li> <li>• Campus public education of transportation alternatives</li> <li>• Ask staff and other students for advice</li> </ul>	

# **WEEK 7 HANDOUTS**

## JACK WELCH On Work and Family

Newsweek

April 4 issue - If there was ever a case of "Do as I say, not as I did," this is it. No one, myself included, would ever call me an authority on work-life balance. For 41 years, my operating principle was work hard, play hard and spend some time as a father.

It's clear that the balance I chose had consequences for the people around me at home and at the office. For instance, my kids were raised, largely alone, by their mother, Carolyn. And from my earliest days at GE, I used to show up at the office on Saturday mornings. Not coincidentally, my direct reports showed up too. Personally, I thought these weekend hours were a blast. We would mop up the workweek in a more relaxed way and shoot the breeze about sports. I never once asked anyone, "Is there someplace you would rather be—or need to be—for your family or favorite hobby or whatever?" The idea just didn't dawn on me that anyone would want to be anywhere but at work.

My defense, if there is one, is that those were the times. In the 1960s and '70s, all my direct reports were men. Many of those men were fathers, and fathers were different then. They did not, by and large, attend ballet recitals on Thursday afternoons or turn down job transfers because they didn't want to disrupt their kids' sports "careers." Most of their wives did not have jobs with their own competing demands. All that changed, of course.

I have dealt with dozens of work-life balance situations and dilemmas as a manager, and hundreds more as the manager of managers. And over the past three years, I've heard from many people—bosses and employees—about the complex issue of work-life balance. I have a sense of how bosses think about the issue, whether they tell you or not. You may not like their perspective, but you have to face it. There's lip service about work-life balance, and then there's reality. To make the choices and take the actions that ultimately make sense for you, you need to understand that reality: your boss's top priority is competitiveness. Of course he wants you to be happy, but only inasmuch as it helps the company win. In fact, if he is doing his job right, he is making your job so exciting that your personal life becomes a less compelling draw.

Most bosses are perfectly willing to accommodate work-life balance challenges if you have earned it with performance. The key word here is: *if*.

Bosses know that the work-life policies in the company brochure are mainly for recruiting purposes and that real work-life arrangements are negotiated one on one in the context of a supportive culture, *not* in the context of, "But the company says ...!"

People who publicly struggle with work-life balance problems and continually turn to the company for help get pigeonholed as ambivalent, entitled, uncommitted, incompetent—or all of the above.

Even the most accommodating bosses believe that work-life balance is your problem to solve. In fact, most know that there are really just a handful of effective strategies to do that—staying focused on what you're doing and saying no to demands outside your work-life balance, for example—and they wish you would use them.

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**“Work-Life Employee Concerns”**

Find the category (A, B, or C) that best describes your current marital/family situation and answer the questions that follow. Please reveal only as much as you feel comfortable revealing.

**A) Single, No Children**

- 1) How many hours a week do you work?
- 2) How many hours a week does the average nonmanagement and management employee work?
- 3) Do you plan to marry one day?
- 4) Do you plan to have children? (If no, go to Question #8)
- 5) How do you envision your child care arrangements (e.g., sell, spouse, family member, nanny or babysitter, family day care, child care center)?
- 6) What type of problems can you foresee based on your choice of child care arrangements?
- 7) If your child gets sick and both you and your spouse work full-time, how will the child be cared for?
- 8) What work-life balancing concerns do you have?
- 9) What kind of organizational support would help you to lead a more balanced life?
- 10) How would you feel if your employer provided child care benefits, even if you do not need to use the benefits?

**B) Married (or living with significant other) With No Children**

- 1) How many hours a week do you work?
- 2) How many hours a week does the average nonmanagement and management employee work?
- 3) Do you plan to have children? (If no, go to Question #7)
- 4) How do you envision your child care arrangements (e.g., sell, spouse, family member, nanny or babysitter, family day care, child care center)?
- 5) What type of problems can you foresee based on your choice of child care arrangements?
- 6) If your child gets sick and both you and your spouse work full-time, how will the child be cared for?
- 7) What work-life balancing concerns do you have?

- 8) What kind of organizational support would help you to lead a more balanced life?
- 9) How would you feel if your employer provided child care benefits, even if you do not need to use the benefits?

*C) Married/Divorced, With Children*

- 1) How many hours a week do you work?
- 2) How many hours a week does the average nonmanagement and management employee work?
- 3) What work-life balancing concerns do you have?
- 4) What are your current child care arrangements?
- 5) What type of problems do you experience based on your choice of child care arrangements?
- 6) When your child gets sick, how is the child be cared for?
- 7) What benefits do you gain by balancing work and family?
- 8) What kind of support would help you balance work and family more effectively (e.g., from employer, spouse, or the community)?
- 9) If your employer provided extensive child care benefits, how do you imagine employees without children would feel about these benefits?

**“Work-Life Owner/Management Concerns”**

Answer the following questions in terms of your current or previous employer. Please reveal only as much as you feel comfortable revealing.

- 1) How many hours a week does the average manager work?
- 2) What problems do the managers in your organization confront when they attempt to deal with subordinates' work-life balance issues?
- 3) How do managers respond to subordinates' work-life balance issues?
- 4) How should the managers respond to subordinates' work-life balance issues?
- 5) Do employees use the work-life benefits that are available to them? If no, what prevents them from participating in these programs (e.g., concern it'll limit promotions)?
- 6) Assume you owned the company, would you implement work-life balance programs or do you believe family responsibilities are the employee's business, not the company's? Why?

## TAKE BACK YOUR TIME

John de Graaf, editor, *Take Back Your Time: Fighting Overwork and Time Poverty in America*, The Official Handbook of the National Movement, 2003, San Francisco: Berrett-Koehler.

Websites: [www.timeday.org](http://www.timeday.org); [www.simplicityforum.org](http://www.simplicityforum.org); [www.puttingfamilyfirst.info](http://www.puttingfamilyfirst.info); [www.swt.org](http://www.swt.org);

Confucian Saying: “He who knows he has enough is rich.”

### Some History

- First national Take Back Your Time Day was October 24, 2003, a dialogue day based on the Earth Day model.
- October 24 is 9 weeks from the end of the year, symbolizing the nine full weeks Americans work every year more than their Western European peers.
- During the first half of the 1900s, Americans were the leaders in the worldwide movement for shorter work time; 1926, Henry Ford’s auto plants introduced 40-hour work week; 1930s unions had achieved 8-hour work day and next pursued a 6-hour day followed by a four-day work week
- 1930, W.K. Kellogg initiated a six-hour day in his Michigan cereal factories.
- 1933, Senate passed the Black-Connery bill to limit the work week to 30 hours; but bill was sidetracked for a government jobs program to increase employment during depression.
- 1960s scholars predicted that by the year 2000 new technology advancements would reduce people’s work week to 20 hours.
- Between 1973 and 2000, the average American worker added 199 hours of work to his or her annual schedule, an additional 5 weeks of work per year.
- 1967: 1716 annual hours worked; 1973: 1679 hours worked; 1979: 1703 hours; 1989: 1783 hours; 1995: 1827 hours; 2000: 1878 hours
- Between 1979 and 2000, among all married couple households in the 25-54 age bracket, total annual hours of paid work by both husbands and wives rose by 388 hours, a gain of 12%
- Labor saving technologies create anxiety over job loss and increased number of hours worked
- Downsizing has caused the survivors to do the work of two people, while those dismissed work two jobs to achieve equivalent prior income
- Companies prefer paying overtime than hiring extra workers, requiring more employee benefits
- Meanwhile 24 percent of Americans, according to the Economic Policy Institute, earn below poverty income (\$8.71 an hour or less), primarily women and blacks
- 2003: 25% of American workers received no vacation; 33% work more than 40 hours a week; 20% work at least 50 hours a week.
- Americans have taken productivity gains in the form of more money, rather than more time off
- For environmental sustainability, people need to work fewer hours and reduce consumption

### International Comparisons

- Americans work an average of 350 more hours a year than Western Europeans
- France and Australia workers get four to six weeks off a year, as required by local law; China mandates 3 weeks off
- Typically, Americans receive 8 days off for first year on the job, and 10 days after 3 years.
- 1996, 25% of Germans enjoyed a 35-hour work week through collective bargaining agreement
- 2000, France legislated 35-hour work week

- Sweden law allows parents to take 15 months of job-protected leave per child at up to 80% of previous pay until child reaches age 8; In Norway, parents can take 42 weeks of leave at 100% pay or 52 weeks at 80% pay
- European Union's Working Time Directives implemented in 1998 set 48 hours as the weekly maximum and gave workers the right to daily rest periods, at least one day off per week, and four weeks paid vacation per year.

### **Long Working Hours Impact on Companies**

- Increase error rates; involuntary turnover; overt and covert expressions of anger; reduced productivity; poor employee health

### **Long Working Hours Impact on Families**

- Less time for sit down family meals
- Increased job-escape drinking
- Increased work-family conflict
- Since late 1970s, children have lost 12 hours per week in free time, replaced by structured activities; due to more opportunities for girls and parental overreaction to make sure their kids succeed or not fall behind, and peer pressure.
- Top concern of teenagers (20%) is not enough time with parents.
- As insecurely attached kids get older, they are more likely to become anxious, aggressive, depressed, and unable to have close interpersonal relationships.

### **Long Working Hours Impact on Civil Society**

- Less time available for volunteer activities, community and civic causes
- Increased government spending to offset less volunteer support
- Less jobs available for other people

### **Long Working Hours Impact on Health**

- Increased stress; Fatigue; Depression; Impaired judgment; High blood pressure; Heart attacks; Obesity; Diabetes
- Cost of depression to businesses estimated at \$44 billion, with depression leading to absenteeism, high health care costs in other areas, and high turnover
- In 2000, 61% of Americans overweight, double what it was in 1975.
- Increased accidents and injuries at work
- Consume more unhealthy fast food and fewer healthy home cooked meals
- People who take an annual vacation reduce risk of heart attack by 30%
- Frequent vacations reduce death form heart disease among women by 50%.
- Pets are more obese and suffer from separation anxiety.

### **Long Working Hours Impact on Environment**

- People spend increased time driving to work, causing more pollution
- Less time for recycling and greater use of throwaway items
- Over-consumption results in more garbage

## **Solutions**

### **Limit Hours**

- 1986 UAW Local 95 at General Motors plant in Janesville signed agreement for a four-day work week, four 10-hour days followed by three days off. Hours per week have since increased.

- SAS, a privately held software firm in North Carolina, limits weekly work hours to 35-40 hours a week, including those of the CEO.
- Southwestern Bell caps mandatory overtime at 10-15 hours per week.
- Northwest Airlines permits employees to refuse overtime if they provide reasons that cannot be altered on short notice, such as childcare.
- European firms plan for the time offs through cross-training current workers

### **Legislation**

- “Work to Live” legislative amendment proposals to Fair Labor Standards Act
  - (1) Three weeks of paid vacation for one year of employment
  - (2) Pro-rated starting after 3 months, with 1.5 weeks off after 6 months
  - (3) Four weeks off after 3 years of employment
  - (4) Protect workers against retaliation for taking all earned vacation
- In 1999, after a tragic accident, Maine became the first state to limit the number of involuntary overtime hours employers could work an employee to 80 hours within a two-week period.
- California is the only state to limit the work week by law, at 72 hours.
- Beginning July 2004, California workers can receive 6 weeks partial wage payments to care for new children and ill family members

### **Other Ideas**

- Job share, flex-time; temporary work; consulting arrangements
- Sabbaticals
- Set aside one week a year as neighborhood festival time
- Phased retirements: Age 55 cut back to 32 hours a week and receive 20% of pension; Age 60, 24 hours; 65, 12 hours; 70, 0 hours and full pension

**Typical Work-Life Strategies:** Some organizations believe that work-life initiatives are a strategic imperative to attract and retain quality employees, and that achieving a healthy balance between work and life reduces stress and enhances performance.

#### *Time-Based Strategies*

Flextime; compressed work weeks; job sharing; part-time work; leave for new parents; phased return to work following childbirth or adoption; telecommuting

#### *Information-Based Strategies*

Intranet work-life options website; resource and referral system; relocation assistance; eldercare resources; eldercare/child care fairs; work-life balance brochures

#### *Money-Based Strategies*

Vouchers for child care; flexible spending accounts; adoption assistance; leave with pay

#### *Direct-Service Strategies*

On-site child care; emergency back-up care; homework helpline; concierge services; take-out dinners

#### *Work Culture Change Strategies*

Link management pay to employee satisfaction; focus on employee's actual performance outcomes rather than "face time;" train managers to help employees deal with work-life conflicts

### **Key Points**

#### **1. Work-life balance can improve profitability**

- First Tennessee Bank in Memphis allowed full-time employees who were planning to quit their jobs for family-related reasons to work part-time with benefits. Bank saved \$5,000 to \$10,000 in replacement costs for each nonmanagerial employee and \$30,000 to \$50,000 for each executive. Also created a shift schedule to have longer shifts at the beginning of the month when demand is heaviest and shorter ones at the end. As a result, account reconciliation declined from 10 days to 4. Bank has saved more than \$3 million in turnover costs alone, and productivity and customer satisfaction increased dramatically.
- Lancaster Laboratories in Lancaster, Pennsylvania found that 50% of its employees who went on maternity leave never returned to work. 10-15 of its 600 employees take maternity leave each year, with costs for replacing employees ranging from \$10,000 to \$15,000. In response, managers provided flexible work schedules, an on-site child care center, licensed kindergarten programs, and an adult day care facility. As a result, 94% of employees who go on maternity leave return to work. Estimated annual savings is \$100,000.
- See *Working Mother* website at [www.workingmother.com](http://www.workingmother.com) for a description of the 100 best companies for working mothers and related links.

#### **2. Simple solutions (e.g., job sharing, flextime, on-site child care) usually do not go far enough.**

- Although these benefits can significantly reduce stress and increase productivity, many **career-minded employees are reluctant to take advantage of them because they fear their careers will suffer.**
- Managers must develop a culture that supports the use of family-friendly benefits.
- Managers must become more comfortable measuring performance outcomes rather than face-time at the office.
- Management pay must be linked to employee satisfaction and work-life balance.

#### **3. Work-family balance is not just a woman with children issue.**

- The gap between women and men caring for children and doing household tasks is narrowing.
- Work-family balance also affects single people and married people without kids caring for parents or a loved one.
- Single people can become resentful if extra work burdens placed on them