values, procedures, and rules. Without it a firm's reputation, its ethics within and outside its industry, and the perception of government officials will increase the likelihood that legal fees will increase, stakeholders will be disaffected, and legal agencies will start investigating.

S.C. Johnson represents a values-based culture involving five generations of Johnson family members. The company maintains a strong commitment to consumers, the general public, neighbors and host countries, world communities, and employees. It has been recognized as one of the best places to work and exemplify excellence, diversity, and work–life balance. S.C. Johnson offers flexible work schedules; "no meeting day Fridays," so that employees can catch up on work on Fridays and go into the weekend more relaxed; extended leave for maternity, paternity, and adoption; paid sabbaticals to improve employee performance; on-premise child care services; telecommuting; on-site banking; laundry pick up/drop off; support to take care of services such as oil changes; and a 146-acre park for employees offering an indoor recreation center, aquatic complex, softball fields, tennis courts, driving range, and miniature golf course.[22]

Differential Association

Differential association refers to the idea that people learn ethical or unethical behavior while interacting with others who are part of their role-sets or belong to other intimate personal groups.[23] The learning process is more likely to result in unethical behavior if the individual associates primarily with persons who behave unethically. Associating with others who are unethical, combined with the opportunity to act unethically, is a major influence on ethical decision making, as described in the decision making framework in Chapter 5.[24]

> *"Superiors have a strong influence on the ethics of their subordinates."*

Consider two cashiers working different shifts at the same supermarket. Kevin, who works in the evenings, has seen his cashier friends take money from the bag containing the soft-drink machine change, which is collected every afternoon but not counted until closing time. Although Kevin personally believes that stealing is wrong, he has often heard his friends rationalize that the company owes them free beverages while they work. During his break one evening, Kevin discovers that he has no money to buy a soda. Because he has seen his friends take money from the bag and has heard them justify the practice, Kevin does not feel guilty about taking four quarters. However, Sally, who works the day shift, has never seen her friends take money from the bag. When she discovers that she does not have enough money to purchase a beverage for her break, it does not occur to her to take money from the change bag. Instead, she borrows from a friend. Although both Sally and Kevin view stealing as wrong, Kevin has associated with others who say the practice is justified. When the opportunity arose, Kevin used his friends' rationalization to justify his theft.

A variety of studies have supported the notion that such differential association influences ethical decision making. In particular, superiors have a strong influence on the ethics of their subordinates. Consider the actions of Mark Hernandez, who worked at NASA's Michoud Assembly Facility applying insulating foam to the space shuttles' external fuel tanks. Within a few weeks on the job, coworkers taught him to repair scratches in the insulation without reporting the repairs. Supervisors encouraged the workers not to fill out the required paperwork on the repairs so that they could meet the space shuttle program's tight production schedules. After the shuttle *Columbia* broke up on reentry, killing all seven astronauts on board, investigators focused on whether a piece of foam falling off a fuel tank during liftoff may have irreparably damaged the shuttle. The final determination of the cause of the disaster may require years of investigation.[25]

Several research studies have found that employees, especially young managers, tend to go along with their superiors' moral judgments to demonstrate loyalty. In one study, an experiment was conducted to determine how a hypothetical board of directors would respond to the marketing of one of the company's most profitable drugs, which resulted in 14 to 22 unnecessary deaths a year. When the imaginary board of directors learned that a competitor's drug was coming into the market with no side effects, more than 80 percent supported continuing to market the drug and taking legal and political action to prevent a ban. When asked their personal view on this situation, 97 percent believed that continuing to market the drug was irresponsible.[26] We have made it clear that *how* people typically make ethical decisions is not necessarily the way they *should* make ethical decisions. But we believe that you will be able to improve your own ethical decision making once you understand the potential influence of your interaction with others in your intimate work groups.

Whistle-Blowing

Interpersonal conflict ensues when employees think they know the right course of action in a situation, yet their work group or company promotes or requires a different, unethical decision. In such cases, employees may choose to follow their own values and refuse to participate in the unethical or illegal conduct. If they conclude that they cannot discuss what they are doing or what should be done with their coworkers or immediate supervisors, these employees may go outside the organization to publicize and correct the unethical situation.

Whistle-blowing means exposing an employer's wrongdoing to outsiders (external to the company) such as the media or government regulatory agencies. The term *whistle blowing* is also used for internal reporting of misconduct to management, especially through anonymous reporting mechanisms, often called hotlines. Whistle-blower laws have provisions against retaliation and are enforced by a number of government agencies. For example, under the Sarbanes–Oxley Act, the U.S. Department of Labor (DOL) directly protects whistle-blowers from retaliation, reporting violations of the laws, and refusing to engage in any action made unlawful. The Corporate and Criminal Fraud Accountability (CCFA) Act protects employees of publicly-traded firms from retaliation for reporting violations of any rule or regulation of the Securities and Exchange Commission, or any provision of federal law relating to fraud against shareholders. The CCFA Act makes it a federal crime for a company to retaliate. It also requires attorneys to become internal whistle-blowers as well.

The Sarbanes–Oxley Act and the Federal Sentencing Guidelines for Organizations (FSGO) has institutionalized internal whistle-blowing to encourage discovery of internal misconduct. For example, billionaire R. Allen Stanford's worst enemies may be former employees, turned whistle-blowers, who once worked for his $50 billion Stanford Financial Group. One lawsuit alleges that an employee hired to edit the firm's corporate magazine objected to and raised concerns about firm practices that he believed violated federal and state laws. He was later fired. Others who filed industry arbitration claims alleged they were forced out of the fast-growing firm after questioning the ability of Stanford International Bank to justify high CD rates. In the Stanford case, whistle-blowers have provided pivotal evidence documenting corporate malfeasance at a number of companies.[27] Historically, the fortunes of external whistle-blowers have not been as positive; most were labeled traitors, and many lost their jobs. Even Sherron Watkins was a potential candidate for firing as the Enron investigation unfolded with law firms assessing the implications of terminating her in light of her ethical and legal concerns about Enron.[28]

TABLE 7–4 Questions to Ask Before Engaging in External Whistle-Blowing

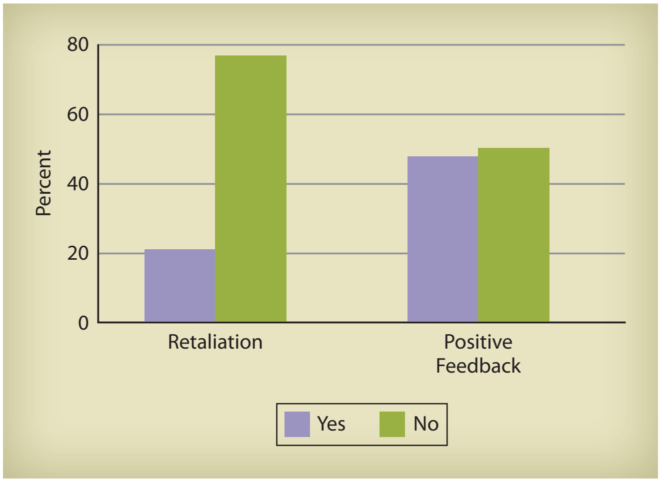
1.	**Have I exhausted internal anonymous reporting opportunities within the organization?**
2.	**Have I examined company policies and codes that outline acceptable behavior and violations of standards?**
3.	**Is this a personal issue that should be resolved through other means?**
4.	**Can I manage the stress that may evolve from exposing potential wrongdoing in the organization?**
5.	**Can I deal with the consequences of resolving an ethical or legal conflict within the organization?**

A study of 300 whistle-blowers by researchers at the University of Pennsylvania found that 69 percent lost their jobs or were forced to retire after exposing their companies' misdeeds.[29] For example, the whistle-blower who exposed Wal-Mart chairman Thomas Coughlin of defrauding the company was terminated about a week after Coughlin resigned. Jared Bowen, a former vice president for Wal-Mart Stores, Inc., claims that he was terminated for his exposure of Coughlin, in violation of a provision of the Sarbanes–Oxley Act protecting whistle-blowers.[30] If an employee provides information to the government about the company's wrongdoing, under the Federal False Claims Act, the whistle-blower is known as a ***qui tam relator***. Upon investigation by the U.S. Department of Justice, the whistle-blower can receive between 15 and 25 percent of the recovered funds, depending upon how instrumental his or her claims were in holding the firm accountable for its wrongdoing.[31] Although most whistle-blowers do not receive positive recognition for pointing out corporate misconduct, some have turned to the courts and obtained substantial settlements. Table 7–4 provides a checklist of questions an employee should ask before blowing the whistle externally. Figure 7–3 shows that nearly one in four employees experience retaliation after reporting misconduct. Nearly half of all employees who report misconduct received positive feedback for having done so.

If whistle-blowers present an accurate picture of organizational misconduct, they should not fear for their jobs. Indeed, the Sarbanes–Oxley Act makes it illegal to "discharge, demote, suspend, threaten, harass, or in any manner discriminate against" a whistle-blower and sets penalties of up to 10 years in jail for executives who retaliate against whistle-blowers. The law also requires publicly traded companies to implement an anonymous reporting mechanism that allows employees to question actions that they believe may indicate fraud or other misconduct.[32] Additionally, the FSGO provides rewards for companies that systematically detect and address unethical or illegal activities. More recently, within the federal stimulus proposal, new whistle-blower protection was supported for state and local government employees and contractors, subcontractors, and grantees. The new law provides specific protections including the right to seek investigation and review by federal Inspectors General for "adverse actions" such as termination or demotions.[33]

Some U.S. companies are setting up computer systems that encourage internal whistle-blowing. With over 5,500 employees, Marvin Windows (one of the world's largest custom manufacturers of wood windows and doors) is concerned about employees feeling comfortable reporting violations of safety conditions, bad management, fraud, or theft. The system is anonymous and allows for reporting in native-country languages. This system is used to alert management to potential problems in the organization and facilitate an investigation.[34]

FIGURE 7–3 Outcomes for Internal Whistle-Blowers Reporting Misconduct

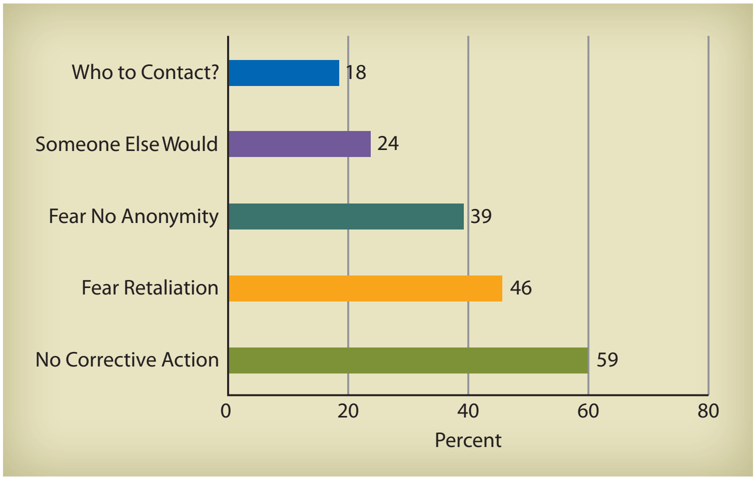


Source: National Business Ethics Survey, *How Employees View Ethics in Their Organizations 1994–2005* (Washington, DC: Ethics Resource Center, 2005), 32.

Even before the passage of the Sarbanes–Oxley Act, an increasing number of companies were setting up anonymous reporting services, normally toll-free numbers, through which employees can report suspected violations or seek input on how to proceed when encountering ambiguous situations. These internal reporting services are perceived to be most effective when they are managed by an outside organization that specializes in maintaining ethics hotlines.

Figure 7–4 indicates the reasons why employees do not report misconduct in the organization. The extent to which employees feel there will be no corrective action or there will be retaliation are leading factors influencing their decisions not to report observed misconduct.

FIGURE 7–4 Reasons why Employees do not Report Observed Misconduct



Source: National Business Ethics Survey, *How Employees View Ethics in Their Organizations 1994–2005* (Washington, DC: Ethics Resource Center, 2005), 29.