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Strengthening Ethics Within Agricultural Cooperatives



Abstract

Cooperatives as distinct forms of business rely upon members to work together towards collective goals. Trust lies at the heart of cooperation and provides the basis for communication that is essential for members to seek mutual benefit. Ethics provides the foundation for trust that must be present for cooperation to occur. This report explains why ethics is important to the success of cooperatives and what boards of directors and managers can do to strengthen it. Emphasis upon ethical business conduct may help distinguish cooperatives from other types of business while at the same time reinforcing membership commitment and loyalty.

Strengthening Ethics Within Agricultural Cooperatives

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Preface

This report originated in a series of informal discussions between the two senior authors of this report and Jerry Van Der Kamp, AGRI Industries, Inc., West Des Moines, Iowa, and Arthur **Beenken**, manager, Farmers Cooperative Society, Wesley, Iowa. The purpose was to discuss current and expected changes in the grain transportation and distribution system. However, each meeting ended in a discussion of a perceived weakening of the ethics in the grain distribution system, the farmer cooperative system, and agriculture in general. These discussions made it clear that, if ethics in farmer cooperatives have indeed declined and need to be strengthened, these ethical issues and problems must be openly discussed by cooperative directors, managers, employees, and members.

This prompted a proposal to USDA's Rural Business-Cooperative Service to fund a study on the ethical concepts, problems, and possible solutions to the perceived declining ethics in farmer cooperatives. We were joined in this effort by Iowa State University Professor Ronald Deiter and Ms. Pat Hipple, a graduate student in the university's Department of Sociology, who did much of the library research on ethical theory and concepts.

Many people made this report possible. Numerous cooperative directors, managers, and employees spent considerable time in focus groups and discussion sessions. We profited immensely from their insights and suggestions and hope this report accurately reflects their concerns. We sincerely hope this report meets the expectations of Jerry Van Der Kamp and Arthur **Beenken** who first called our attention to the need to address how cooperatives might strengthen their ethics.

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Highlights

- Ethical issues particularly related to the business ethics of day-to-day decision making within agricultural cooperatives are identified.
- Ethical behavior builds trust which, in turn, sets a foundation for communication, commitment, loyalty, and cooperation.
- Cooperatives are challenged to distinguish themselves from other organizations and to strengthen their competitive advantages by being leaders in developing and emphasizing ethical business behavior.
- Cooperative leaders are presented with an analytical framework for determining the ethicality of their cooperative business decisions, which should help them to avoid potentially unethical and embarrassing positions and decisions.
- Ethical versus moral versus legal behaviors are discussed.
- Reasons why ethical behavior builds successful cooperatives are identified.
- Farmer opinion surveys indicate that producers are concerned about ethical issues and a possible erosion of ethical behavior.
- Results of focus group meetings with cooperative managers and directors identify several ethical issues that leaders often encounter and have to address.
- Forces and pressures that may promote or cause unethical behavior by cooperative leaders or cooperative members are discussed.
- Cooperative leaders face critical questions to ask and danger signs to look for in determining if their own organization is at ethical risk.
- A step-by-step procedure is presented for use by cooperative leaders who want to maintain or improve the ethical conduct of their cooperative businesses.
- Guidance is provided for cooperative leaders who want to develop a code of ethics that is appropriate for their cooperative businesses.
- A series of practical exercises for facilitating discussion and understanding of ethical issues on an individual cooperative basis have been developed and are included for cooperatives wishing to conduct meetings, discussion groups, conferences, etc., on ethics for employees, directors, and even members.

Strengthening Ethics Within Agricultural Cooperatives

Chapter 1 . Introduction

“When people accept responsibility for their own conduct and for the well-being of others, ethics serves to stabilize society. Ethical leadership is the antidote to the despair and cynicism that are crushing our spirit and clouding our future. Ethics is our hope.”

Gary Edwards

Thomas Jefferson once wrote, “Cultivators of the earth are the most valuable citizens. They are the most vigorous, the most independent, the most virtuous, and they are tied to their country, and wedded to its liberty and interests by the most lasting bonds” (USDA, 1937).

There are numerous examples and anecdotal evidence that supports Jefferson’s arguments for agrarian values and ethics. The Protestant work ethic and commitment to work has had an important cultural impact. The work ethic is rooted in the belief that working hard, saving, thrift, and belief in God are evidence of a good moral character. Prospective employers commonly seek farm-reared youth because of their work ethic and rural values. Rural values are often associated with an emphasis upon family, community, and church.

Differences between rural and urban crime statistics, percent population on welfare, school dropout rates, alcohol and drug abuse, and family violence rates are often cited as further evidence that rural residents have higher ethical and moral standards.

On the other hand, agricultural history contains many examples of unethical and, in some cases, illegal behavior. The settlement period and the westward migration of pioneer families are characterized with many illustrations of unethical behavior including land frauds, broken treaties with Native Americans, claim jumping, squatter rights, land struggles between the ranchers and sod busters, denial of human rights in the case of the institution of slavery, and religious intolerance that resulted in the Mormons fleeing to the Great Salt Lake.

In many instances, unethical behavior was woven into the very fabric of rural culture. For example, horse traders and land speculators were generally not trusted; nevertheless they were accepted because they provided necessary goods and services. Some of the most notorious figures from the pioneer or frontier period were people of questionable ethics. Justice in the frontier period was often settled by who was the best shot, who could afford the best lawyer, who could best influence the judge, or who could buy the jury. Despite deeply held beliefs that rural people, and especially farmers, provide the moral fiber to society, there is ample historical evidence that ethics were often secondary to other motives.

Many believe ethical standards and moral principles have declined in recent years in rural America. Several factors may account for the perceptions that rural ethics have changed. It may indeed be true that ethical standards have declined. Some also argue that ethical standards have not declined, but rather, societal expectations have increased. Behavior once acceptable is no longer permitted. Other possible explanations are that, as a society, we are more sensitive to ethical behavior because we are exposed to more media attention about ethics and morals; or that perhaps ethical discussions are part of a larger social movement towards a spiritual renewal. Clergy, politicians, educators, and the media have devoted increased attention to how to improve ethical standards.

The 1980s have been characterized by many as the decade of greed in which Wall Street brokers, financial tycoons, and leveraged buyouts were the icons of the decade. Perhaps the discussions of declining ethics reflects some of the excesses of the previous decade. Ethics seem to be taking on a more important role in the everyday public lives of everyone. Differing views on what is ethical, what is meant by ethical behavior, and how ethics and morals differ suggest more attention should be devoted to understanding what constitutes ethical business conduct within and among cooperatives.

What Is the Problem?

This project explores some common ethical issues in agriculture with particular attention to business ethics within agricultural cooperatives. It also offers some suggestions on how to improve ethical standards. The paradigm guiding this project is shown in figure 1.

Trust lies at the heart of cooperation. Without trust, people do not communicate and, as a result, cooperation is unlikely. People who work together must know and trust each other. It is very difficult for people to trust each other unless they share a commitment to ethical principles. An important ingredient in building trust among and between members and their cooperative organization is ethical business practices.

Where high ethical standards exist, a foundation of trust is established that is essential for cooperative action to occur. When ethical behavior is the norm, people are more likely to trust each other which, in turn, increases levels of communication and understanding. Where ethical conduct is emphasized, we expect to find higher levels of two-way communication between the manager, board members, and patrons.

Open and honest communication contributes to building mutual understanding of cooperatives' goals and mission. This, in turn, leads to greater cooperative action. Without the foundation of business ethics that builds trust among employees, board members, managers, and patrons, there is little reason to expect people to work together.

Trust doesn't just happen. It results from conscious decisions and efforts to improve human relationships. Building trust among any group is a long-term and time-consuming effort. In an article in *The Atlantic Monthly*, Peter Drucker (1995) discusses principles of re-inventing Government and strategies that many major corporations have used to improve their performance. Behind many of the efforts to become more efficient and productive has been increased attention on building trust, communication, and cooperation.

Figure 1- **Ethical Conduct as a Unique Feature of Cooperatives**



While there has been much interest in the successes of the Japanese management systems in manufacturing, such as quality circles and Total Quality Management, much of this has relied upon building teamwork among workers. Much of this emphasis has been upon building teams through creating trust and loyalty in the workplace.

Cooperative Loyalty

Member loyalty is a major concern expressed throughout the cooperative literature. Membership patronage and participation in the governance are central to building strong and successful cooperatives. Much literature focuses on how to attract and maintain member loyalty.

The premise of this project is that membership loyalty should be viewed as an outcome or product of sound business ethics which creates a climate of trust within cooperatives. Membership loyalty and participation are low where trust does not exist or where ethical standards have not been established or enforced. Conversely, rates of loyalty and participation are higher where ethical standards and trust have been emphasized.

Typically, members evaluate their cooperative in terms of prices paid or received, patronage refunds, and the range and quality of services. Using these criteria, it is often difficult to differentiate cooperatives from noncooperatives. While "meeting the competition" is important in the day-to-day success of cooperatives, more attention is needed to build long-term membership commitment and loyalty. Cooperatives need to develop unique ethical qualities that will help distinguish them from their competitors. This report argues that strong, vibrant cooperatives have a strong focus on business ethics and ethical practices.

Previous research on membership loyalty has explored membership attitudes (Utterstrom, Heffeman, and Torgerson, 1976) and special niche markets that cooperatives might fill such as providing services to small farmers that would attract patronage and loyalty (Lasley and Geller, 1983). Other research has examined how organizational structure of cooperatives may influence membership participation and ultimately control of the organization (Lasley, 1981). However, the relationships between organizational structure and membership attitudes, participation, patronage, and control have generally been modest to weak.

Cooperative Distinctiveness

When asked to define a cooperative, members often talk about patronage refunds, the presence of a board of directors, or that they own part of the business. However, distinctions among cooperatives and between cooperatives and noncooperatives are frequently unclear.

This suggests that cooperatives have not been successful in making themselves unique and distinct from other forms of business organizations or from each other. Even in cases where cooperatives have been financially successful, members often fail to appreciate the important role that cooperatives play in providing a yardstick to assess private companies. This suggests that the perceived differences among cooperatives and between cooperatives and noncooperatives are real but relatively unimportant. This report suggests that cooperatives must demonstrate their unique roles in the agricultural industry by emphasizing ethical conduct.

Ethical Problems Posed to Cooperatives

Agricultural leaders are faced with many difficult decisions that present vexing ethical dilemmas. Cooperative members often express concerns about ethical decisionmaking and behavior at the local, regional, and national levels. Yet, they feel inadequate to offer solutions. From competitive pressures to confusion about fiduciary responsibilities, waning loyalties, conflicts of interest, and breach of trust by their patron-members, many cooperative members express concern for what they see as declining ethics in their organizations, community, and country.

Ethical dilemmas are often apparent in pricing policies and practices, sales promotion, disposition of sales incentives, business dealings with relatives and friends, and neglected leadership and membership responsibilities. Many of these decisions hold important ethical implications for membership trust and loyalty.

Business illegalities, including bribery, insider trading, executive piracy, fraud, and collusion, along with more subtle conflicts of interest, including gifts or favors, personal financial interests, external affiliations, and moonlighting, erode confidence that cooperatives are unique in their business ethics. It is not surprising that many who hold a stake in agricultural cooperatives feel overwhelmed by the ethical dilemmas and are ill-prepared to resolve them. Cooperatives, like small businesses, large corporations, social institutions, and governmental agencies, are struggling with ways to create ethical environments and restore fairness, confidence, and trust.

Attention to business ethics has played a major role in differentiating farmer cooperatives from other types of businesses and, in the future, ethics will play a more prominent role in strengthening cooperatives. Membership loyalty will become more important for cooperatives to retain their members and to maintain market share in an ever increasingly competitive environment. As coordination increases through formal contracts or vertical integration in agriculture, a key concern should be identifying what cooperatives can do to sharpen or highlight their commitment to higher ethical standards to enhance membership loyalty and increase patronage.

Summary

- Chapter 2 explores ethical issues interwoven into the everyday course of events and decisionmaking of cooperatives. The first objective of this report is to raise awareness of ethical issues that confront cooperatives on a day-to-day basis and discuss how ethics differs from morals.
- Cooperatives should focus on those aspects of their organizations that highlight their distinctiveness. Long-term commitment and loyalty are key considerations for the success of cooperatives given heightened competition among agriculture suppliers and processors. Developing a strong code of ethics will help build trust among members, strengthen communication, and lead to greater cooperation, commitment, and loyalty. In doing so, cooperatives could gain a competitive advantage by developing and emphasizing a code of ethics that clarifies them as distinct from their competitors. This rationale is presented in Chapter 3.
- Chapter 4 explores the evidence concerning perceptions of the importance of ethics and how Iowa producers perceive the erosion in business ethics. Data from the Iowa Farm and Rural Life Poll, as well as insights from focus groups conducted among cooperative directors and managers, are presented. These data suggest there is a growing recognition that ethical business standards are important to producers.
- With increased competition among agribusiness and evidence that producers are concerned about the erosion of ethics, cooperatives can highlight their distinctiveness by emphasizing ethical standards. To remain competitive and serve members, cooperatives must monitor member needs, and enlist membership support in renewing their commitment to ethical business practices. Tools to develop a strong code of ethics are discussed in Chapter 5.

- Chapter 6 provides worksheets and exercises that can be used in group settings or staff meetings to begin work towards strengthening business ethics. A key focus of these materials is to suggest that attention to ethics is not an event but rather an ongoing process. Simply adopting a code of ethics is inadequate. There has to be a commitment to incorporating ethical considerations into all decisions. These materials are designed to help initiate ethical decisionmaking processes.

Chapter 2. What Is Ethical in Business

“Ethics is about character and courage and how we meet the challenge when doing the right thing will cost more than we want to pay.”

Michael Josephson

“We judge ourselves by our intentions while others must judge us by our behavior.”

Verne E. Henderson

What is “ethical” behavior in a cooperative and what criteria can be used to determine the ethicality of a cooperative business decision? These questions are addressed in this chapter.

Identifying an Ethical Issue

A “moral” or ethical issue is at stake anytime a person’s actions may benefit or harm others (Jones, 1991). Ethical behavior is commonly regarded as morally correct behavior (i.e., proper, just, good, desirable, obligatory, etc.) based on theories or philosophies of morally correct behavior (Bommer et. al., 1987:267).

Unfortunately, this broad interpretation of ethical behavior is not very helpful in analyzing the ethicality of specific actions in cooperatives. More specifically, event-applicable definitions of ethical behavior are difficult to establish and not very useful (Jones, 1991). As a result, questions of ethical behavior rarely yield single, noncontroversial answers (Henderson, 1992).

Reasonable people can, and often do, disagree over the degree of ethicality of specific actions taken in business. In part, this is because each of us hold different values and beliefs that shape how we judge the ethicality of decisions.

Ethics as a Field of Study

Ethics is generally regarded as a branch of philosophy that deals with how people ought to live by incorporating notions of what human conduct is “good” and what behavior is “just” or “right.” One

source of rules about what is right and wrong is social mores. For this reason, ethics has been described as “moral philosophy” (Pojman, 1990).

Some contend that philosophers have not adequately defined ethics, even though they have debated ethical questions for hundreds of years. For example, both Aristotle and Plato (400 BC) were writing about what is “good” and what is “right.” While public interest in business ethics, including cooperatives, may seem to be a relatively modern phenomena, the more general field of ethics has been in existence for nearly as long as humankind.

Business Ethics

Peter Drucker (1981) doubts whether business, or any other activity for that matter, warrants having its “own” ethics. Drucker’s view seems to be in the minority on this matter. A more commonly held opinion is that the business ethic differs from that which is practiced at home, church, or other social gatherings (Henderson, 1992). Some argue that even though some rules apply to everyone in every situation, it is a mistake to think of ethics as a unique code of rules with universal applicability (Henderson, 1992; Solomon and Hanson, 1985).

Many aspects of ethics are specific to particular communities and organizations, including the practice of business. There are differences in ethical standards between small towns and big cities, small and large companies, banks and car dealers, physicians and school teachers, and investor-owned companies and cooperatives. Ethical considerations are also likely to vary among cooperatives and across situations. There seems to be a growing consensus that business ethics is a distinct field of study or sub-discipline within the broader discipline of ethics.

To clarify what is typically meant by business ethics for cooperatives, consider what business ethics is not. It is not simply a list of specific instructions on what to do and not to do to produce ethical activity. Ethics is not a unique set of rules that apply to all businesses in all situations (Solomon and Hanson, 1985). Rather, business ethics for cooperatives is a never-ending “process” of attempting to discover, clarify, and resolve what constitutes the best business action to take in accordance with some belief of societal or community welfare. In this sense, ethics for cooperatives is a dynamic process given the ever-changing nature of society’s attitudes and expectations.

Thus, business ethics is a process used to consider the mutual expectations of all constituents involved,

formally or informally mandated, to settle a broad array of issues in business such as fairness, truthfulness, and justice.

Business ethics deals with the results or consequences associated with business decisions, and the means, methods, and motives employed in the decisionmaking process. Business ethics is concerned with what businesses do, as well as how and why. It is either explicitly or implicitly an integral part of business decisionmaking. “Cooperative” ethics merely applies to the cooperative form of business.

Business Ethics Versus Personal Morals

While “business” and “personal” ethics are closely related in this report, the two are not considered the same. Personal ethics, perhaps more commonly referred to as “morals,” relates to beliefs, values, principles, attitudes, and convictions about what is right, proper, and acceptable personal behavior in social relationships, usually outside of a business setting.

Morals are learned through personal experiences involving family, church, government, education, and work. These institutions play a key role in defining societal expectations about which morals or rules of personal conduct ought to be followed in both business and nonbusiness settings.

Morals help explain differences among people and are reflected in one’s personal conduct. Ethics is, however, negotiated. They include mutual expectations that you hold for others, and what they hold for you. The key difference is that morals are private or personal, while ethics are social expectations.

Business ethics, on the other hand, deal with personal behavior considered appropriate *within* a business or professional context. Business ethics are not the same as personal morals. Ethics are social expectations held for a specific person or group. For example, teachers are held to a different set of ethics because of their important influence on children. In many professions and occupations, including physicians, lawyers, nurses, and clergy, expectations for behavior have been formally codified.

There are obvious individual differences in personal morals. What one person views as moral, another may view as immoral. There are some universal morals across society such as prohibitions about lying, stealing, infidelity, and killing. However, even then there are often varying degrees to which people hold these morals as absolutes. For example, the moral principle of not killing another human being has been hotly debated in the case of the death penalty and is generally not applicable in case of war.

Individual differences in ethical principles are actually used in the business world. A person is regarded as “ethical” if his/her own level of ethics meets or exceeds societal expectations in either a “personal” or a “business” context. However, in practice, the term “ethical” normally refers to a person or a business whose level of *business* ethics meets or exceeds societal expectations. The term “moral” normally refers to *personal* ethics.

Figure 2 summarizes these typical, alternative societal views of individual behavior (drawn from Henderson’s framework, 1992:103). Societal perspectives of two alternative kinds of individual behavior (“proper” and “improper”) combined with two alternative settings (business and personal) result in four different theoretical behavioral types—moral, but unethical (quadrant I); moral and ethical (quadrant II); immoral and unethical (quadrant III); and immoral but ethical (quadrant IV). Exercise 1 in the accompanying worksheets found in Chapter 6 is designed to help the reader identify examples of each type of behavior.

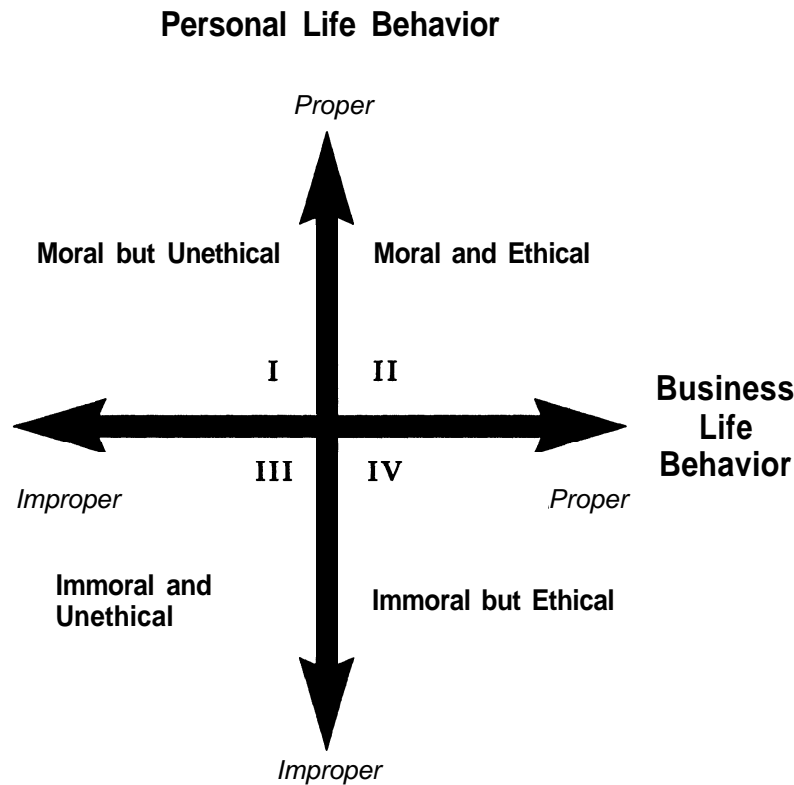
Morals Versus Ethics

An individual may be ethical in a business sense and unethical in a personal sense (i.e. “immoral”). However, most people believe there is a high degree of correlation between one’s personal and business ethics. One who engages in immoral personal behavior is thought to be more likely to engage in unethical business behavior.

It seems logical to assume that what one does in their private lives may influence decisions or choices that they make in business. For example, it is hard to imagine that an individual who frequently lies to his/her family would always tell the truth to his/her co-workers. For this reason, customers may avoid ethical businesses run by immoral people.

Customers or patrons are likely to be skeptical about patronizing a business that is managed by people who are generally regarded as ethical but immoral. At the same time, some customers make decisions about patronizing a business solely on the basis of their perceptions about the ethicality of the business and the people who work there. While patrons may not know much about the personal morals of employees, their perceptions of fair treatment, product service and warranties, and general ethical climate of the business influence their patronage decisions.

Because cooperative managers and directors are generally viewed as community leaders, it is likely they are held to both a higher ethical and moral standard than the general public. Because of their public



role in providing leadership to the cooperative and the community at large, their behavior may be under constant scrutiny. Frequently, leaders in small communities feel constrained and under surveillance. Because of the close association drawn between one’s personal morals and business ethics, it is important that cooperative officials understand that what they do in their private lives may also reflect on their public role as cooperative or community leaders.

Alternative Ethical Positions

Multiple criteria can be used to evaluate the ethics of business decisions and decisionmakers. The different theories of ethical behavior often apply different weights of importance to the various “ethical” criteria (table 1, Pojman, 1990). There are, however, some near universal virtues considered desirable by society (table 1). Subscribing to these virtues and encouraging behavior to achieve them might simply be considered being a “good” business. However, it is important to think about ways that cooperatives can distinguish themselves from other “good” businesses.

There are several ways to classify ethical stances. One way to summarize these positions is to focus on

the “three Cs” of ethical business theories and where the emphasis is placed-character of the **decisionmaker**, compliance of the methods used with societal rules and principles, or the consequences of the decision.

Understanding these ethical positions clarified how others view the ethics of their business decisions.

Table 1—Virtues and Corresponding Behavioral Traits

Virtue	Duty or Principle
Nonmaleficence	Do not inflict harm
Beneficence	Provide help or assistance
Fairness	Be just, impartial, nondiscriminatory
Honesty	Tell the truth, do not be deceitful
Conscientious	Be sensitive, empathetic
Faithfulness	Be loyal, honor one’s commitments
Kindness	Be nice
Graciousness	Be appreciative

Source: Pojman, 1990.

How often have you heard an employee say they approve of their bosses' decision, they just don't like the way they made the decision? Much of the organizational literature on decisionmaking emphasizes that the process is just as important as the substantive issues. This suggests that each of us choose to emphasize different ethical positions.

Sometimes we focus on the character of the decisionmaker, yet in other settings we judge a decision on whether it complies with existing rules and regulations, and in other situations we focus on the consequences of a decision.

Character-Based Ethics

Character-based ethics are based on goals, motives, and intentions. These ethical systems contend it is important not only to do the right thing but also to want to do it. In this approach, the intentions, motivations, character, and dispositions of the decisionmaker are at the heart of determining what is ethical in business. Being an ethical or virtuous person is considered important because it will manifest itself in ethical actions. The inner self or personal psyche motivates a virtuous person to do good because that in itself makes them feel good about themselves and their actions.

Pojman (1990) says, "If we agree there is a general tendency in human affairs for social relations to run down due to natural inclinations toward self-interest, then we can see that special forces must be put in motion to countervail natural selfishness. One of these forces is the external sanctions produced by the law and social pressure. But a deeper and more enduring force is the creation of dispositions in people to do what is morally commendable. It is necessary that people should acquire, and should seek to ensure that others acquire, what may be called good dispositions, that is, some readiness to voluntarily do desirable things which not all human beings are just naturally disposed to do anyway. . ."

Early proponents of cooperatives included member education as one of the principles of cooperation which reflects a commitment to improving individual members (Royers, 1992; Cook, M., 1992; Gray and Mahoney, 1992; Ingalsbe, 1984; Morris, 1987-88). A concern for cooperatives is determining when one's best self-interest behavior is ethical and when is it not ethical.

For example, is it ethical for a cooperative member to patronize another business because he/she can get a "better deal?" While cooperative leaders may not consciously think about what motivates them or others in cooperatives they need to identify the virtues they

desire to be reflected within the organization because they provide the foundation for which decisions they will regard as ethical.

Dilemmas arise in the application of virtue-based ethical theory. This happens when a decision has to be made that forces the decisionmaker to sacrifice one principle to realize another. For example, should one lie about the whereabouts of a person to protect them from bodily harm that might be inflicted by others? If one decides yes, the virtue of honesty would be sacrificed for the virtue of nonmaleficence. Some may attempt to deal with this issue by focusing on the ethicality of the act itself (lying), while others might prefer to solve this problem by focusing on the ethicality of the consequences.

Most people, including cooperative leaders, purport to have desirable virtues and good intentions, yet many are regarded by others as unethical. One plausible explanation is an unrecognized inconsistency between one's intentions and actual behavior. While we judge ourselves by self-perceptions of our own intentions, others judge us and our ethics by our behavior largely because that is all that is observable to them. Others are not aware of our innermost thoughts and intentions. If we could only see ourselves as others see us, we would likely be more sensitive to making our actions reflect our thoughts.

What we do often becomes a matter of public record, while why we did it remains unknown. Another possible explanation for a discrepancy in intentions and behavior is that virtues and values that people hold as decisionmakers surface during times of crisis (Henderson, 1992). People who abandon commonly held virtues for self-interest reasons, even if it is due to pressure or duress, are often regarded as unethical by others. Financial pressures may cause cooperative leaders or patrons to abandon virtuous principles of behavior. While such behavior may be self-justified, it may be seen as unethical by others.

Compliance-Based Ethicality

Compliance ethicality is based on moral principles, rules, and laws. Neither the intentions of the decisionmaker nor the resulting consequences determine the ethicality of one's behavior, but rather the rightness or wrongness of the act or method itself (Pojman, 1990). Compliance with established laws, rules, moral principles, etc., is normally the basis for judging the correctness of the action taken on the method used. A person who adheres to this theory would not agree with the argument that, in some cases, "the end justifies the means."

Examples of moral rules rooted in religious beliefs include the “Ten Commandments” and the “Golden Rule.” The degree to which human rights (entitlements of individuals such as the right to privacy, free speech, due process, etc.) are respected as another method for determining the ethicality of business behaviors. The degree to which legal rights (established by laws), consumer rights (regarding health and safety issues), and principles of justice (impartiality, equal opportunity, entitlement, merit) are followed reflect ethical positions. Any method or behavior that violates a “rule” is regarded as unethical under the compliance-based perspective.

Compliance with rules, policies, laws, ethical standards, etc. is the primary concern to a person who decides what is ethical on the basis of prescriptions. Such a person believes in following rules to the letter, doing their duty, and doing things right (Henderson, 1992:43). They are unlikely to “bend” the rules or change the standards to get the job done. Often, those who emphasize the “rules” are considered inflexible bureaucrats. The rules become more important than getting the task accomplished.

How to apply moral rules can sometimes be the Achilles heel for those who subscribe to the compliance-based ethical perspective. For example, how far should one go in judging the ethicality of behavior by applying the principle that one should not steal—that is, take someone else’s property without paying a fair and agreed-upon price for it?

Does it mean that a person should not take advantage of a company that prices an item wrong or undercharges on a billing statement? Should the penalty for stealing a paper clip be the same as for embezzling thousands of dollars? Should a cooperative employee never borrow company equipment for personal use? Should a cooperative never take advantage of a financially troubled competitor? Often, the issue revolves around where one draws the line between ethical and unethical.

Consequences-Based Ethicality

Consequences-based ethicality emphasizes the impacts or results of behavior in judging the ethicality of that behavior. A person who adheres to this perspective on ethics is more likely to agree that “the end justifies the means.” As a result, people who subscribe to this perspective are more inclined to “bend” the rules, change the standards, or do the right things (versus doing things right). Getting work done and respecting other people’s judgments and feelings are likely to receive higher priority than following the

rules. Recommended changes in policies and procedures are likely to be proposed first by people who hold this view of ethical behavior.

The most widely accepted type of consequence-based ethicality is “utilitarianism.” It says ethical behavior produces the greatest good for the greatest number of people (Cavanaugh, 1981:365). Decisionmakers are expected to anticipate all of the effects of their decisions on the interests of all individuals and groups that may be affected. In reality, decisionmakers, including cooperative leaders, often take “calculative shortcuts” (e.g., only calculate quantifiable dollar costs and dollar benefits, only calculate direct impacts ignoring indirect or secondary impacts) to reduce the complexity of utilitarian calculations.

However, these do not automatically excuse the decisionmakers from being morally responsible for their actions. Business decisions in cooperatives that sacrifice societal or constituent goals for personal gain or decisions that employ inefficient means to achieve desired ends would be regarded as unethical under this perspective (Cavanaugh, 1981).

Ethical Versus Legal

While ethical and legal business behaviors are often closely related, ethical theorists contend they are not synonymous (Henderson, 1992; Pojman, 1990). Legal business behavior complies with laws (i.e. rules) as defined by a legislative body. Ethical business behavior complies with a socially accepted theory of morally correct behavior. Laws are often based on ethical or moral principles where both have the common purposes of promoting human well-being, resolving conflicts of interest, and enhancing social harmony.

For this reason, much overlap exists between ethical and legal (or unethical and illegal) behaviors. However, it’s impossible to have an enforceable law prohibiting every specific type of unethical behavior. Most illegal behaviors are probably viewed as unethical as well, although this may not always be the case. For example, some may believe that non-deceptive advertising of cigarettes on television is an ethical activity, but because it is banned by the FCC, it is illegal.

The sanctions against illegal activity are different from those against unethical activity. Physical sanctions or punishments are intended to enforce compliance with laws while only sanctions of conscience and reputation enforce compliance with ethical principles. In reality, most people avoid violating the law for several reasons including legal consequences, ethical concerns related to possible moral principles underlying

the law, and to strong social stigma associated with doing something “illegal.” Because ethics covers a broad range of issues beyond legality, cooperatives must do more than just comply with the law to distinguish themselves from other forms of business.

Summary

Determining the ethicality of behavior in cooperatives is complicated. What is ethical depends on a number of considerations, including the motives, methods, and anticipated consequences associated with the decisions being made (Henderson, 1992). It also depends on which framework one uses in deciding what is or is not ethical.

Rarely is there complete agreement as to the ethicality of specific behavior except for instances of obviously illegal behavior. Agreement on what constitutes ethical behavior among cooperative managers tends to diminish as the behavior goes from the general to something specific (Dunn, 1988). Often, what is ethical in cooperative businesses is “situational” depending upon the circumstances associated with an action or decision.

Perhaps more important for cooperative leaders is “Who decides what is ethical?” The ethicality of decisions in a cooperative will be judged not only by those making the decisions but also by all constituents—everyone affected by those decisions. It is not the cooperative that acts ethically or unethically, but rather individuals associated with it. Most cooperative business decisions involve unavoidable ethical choices.

As a result, decisionmakers need to have a basic understanding of business ethics and avoid situations where they act first and then later defend the ethicality of their decisions. Having an understanding of the basic ethical concepts will help cooperative leaders avoid unethical positions and decisions. Such an understanding will help cooperative leaders incorporate ethics more fully into the decisionmaking and management process.

Business leaders are in positions of power and influence. Their decisions may determine not only the ethics of their coworkers and businesses but also the personal ethics of individuals with whom they work. Therefore, cooperative managers and directors are likely to be held to a higher standard of ethics.

Chapter 3. Agricultural Cooperatives and Business Ethics

“What we do for ourselves dies with us. What we do for others remains and is immortal.”

Albert Pike

*“*Every day our society pays a heavy price, both emotionally and economically, for the consequences of unethical behavior.”*

Michael Josephson

Emergence of Ethical Issues

The emergence of cooperatives and the cooperative movement can be viewed as a response to farmers’ perceptions that they were not being treated fairly by the private sector. By the mid to late 19th century, farmers began to recognize that abuses of economic power by agribusiness, especially grain companies and railroads, were responsible for much of their financial plight.

Proponents argued that cooperative buying and selling would enable farmers to achieve economies of scale in buying inputs and selling outputs and would provide farmers with additional power. Moreover, it was argued that cooperatives would enable farmers to bypass the middlemen who were often perceived as engaging in unethical conduct.

Many of today’s farm organizations and cooperatives can trace their roots to the farm protests of the late 19th century (Torgerson, 1972). In response to what was perceived as unethical and, in some cases, illegal business practices, the National Patrons of Husbandryman (Grange) was organized to enact legislation for the regulation of railroads and to collectively organize farmers to eliminate the middleman.

The Farmers Alliance and the Farmers’ Union were also heavily involved in attempting to control the power wielded by agribusiness. Later, the American Farm Bureau and the National Farmers Organization actively supported agricultural cooperatives to stem the power wielded by agribusiness.

The first farmer-owned cooperatives in the Midwest were formed more than 100 years ago to assure farmers a fair price for the products they sold and a reasonable price for the products they bought. Access to market information was poor and farmers were suspicious because they had no basis on which to judge how buyers and sellers were treating them.

As farmers discovered the existence of secret grain buyer agreements to pay a uniform price each day effectively eliminating competition for farmers' grain or for their purchases of coal and other supplies, they formed cooperatives to **protect themselves** from unethical pricing and **merchandising practices** (Holman, 1947:7). Other cooperatives were formed to fill a void in the market when a privately owned firm went out of business or because no other buying or selling firms existed.

By 1900, numerous farmer-owned cooperatives had been established throughout the Midwest. Most were successful and began to capture an increasing amount of business from "regular grain dealers." As a result, the Illinois and Iowa regular grain dealers associations began to publish the names of grain receivers who purchased grain from the "irregular dealers"—mostly cooperatives.

The purpose of the list was to boycott the named grain receivers to force them to stop buying grain from the cooperatives. In addition, it was discovered that railroads favored the regular grain dealers over the cooperatives in allocating scarce rail cars. Railroads were also found to provide some regular dealers with rebates and advanced notice of rate changes (Holman, 1947:79).

In 1903, the Illinois Association of Cooperative Grain Companies was formed to protect the grain markets for local Illinois cooperatives. Farmers Grain Dealers Association of Iowa was formed the next year.

In many regions and industries, cooperatives have become the dominant type of firm buying agricultural products from farmers and selling supplies to farmers including grain, fertilizer, chemicals, fruits, vegetables, and milk. Cooperatives are less prominent in the livestock industry although some slaughter and process meat products. Others contract with farmers to produce poultry and swine.

In many Midwest regions, cooperatives buy 80 to 90 percent of the grain sold by farmers. Many cooperatives have multiple locations—some up to 20 or more branches. Sometimes their primary competitors are other cooperatives. In these cases, the original motive for organizing cooperatives to ensure fair dealings with privately owned businesses has disappeared. The drive to increase the size of the territory as well as total sales and savings has opened the door for intra- and inter-cooperative ethical problems.

The history of farm cooperatives suggests that adopting and practicing a higher code of ethics was a major impetus for cooperatives as an alternative form of business. The Rochdale principles of coop-

eration were to be used by cooperatives to bring economic and social benefits (Morris, 1988; Torgerson, 1972).

Cooperatives were organized by farmers on a community basis so they could collectively benefit from buying supplies or marketing farm products. A key ingredient was establishing rapport and developing trust among farmers. Frequently, cooperative organizers were respected local opinion leaders who had rapport with local farmers.

Early cooperative leaders recognized that to be successful they needed to sharply differentiate themselves from traditional private sector businesses. In the anti-business climate created by price gouging, price fixing, and other unethical practices, it was necessary to explain how farmers would benefit from a cooperative. The early organizing efforts stressed the importance of farmer control, honest business dealings, integrity, and high ethical standards.

It was the attention to honest business practice and treating all members fairly that attracted many new members. Cooperatives are businesses owned by patron members who use and benefit from them. They are built on the foundation of trust. Trust, essential for people to join and work for mutual goals, rests on a foundation of commitment to ethical business treatment.

Principles and Ethical Concerns

Although ethics is of growing concern throughout the business community, the unique characteristics of agricultural cooperatives introduce some special ethical dilemmas. A cooperative is an organization operated as a business, voluntarily owned and controlled by member patrons, and operated on a cost basis.

Dunn (1988:84) highlights the unique character of cooperatives where the status of user-owner and control is vested in the same individual. He has cited three central cooperative principles:

- **The User-Owner Principle:** Those who own and finance the cooperative are those who use it.
- **User-Control Principle:** Those who control the cooperative are those who use it.
- **The User-Benefits Principle:** The cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use.

Combining these three principles, Dunn (1988:85) defines a cooperative business organization as, "a user-owned *and* controlled *business from which benefits are*

derived and distributed on the basis of use.” Baarda (1986) compares how a cooperative business organization differs from other forms of business based upon seven features (figure 3).

This comparison reinforces the three central principles identified by Dunn as the distinguishing features of cooperatives. Across the seven features presented, patron members are the intended beneficiaries.

Considering Ethical Standards

Ethical standards of cooperatives should follow basic standards of honesty and integrity. All businesses must adhere to national, State, and local **government** laws. Similarly, all businesses should avoid conflicts of interest in their dealings with other firms and customers.

The basic difference in ethical standards between investor-owned firms and cooperatives rests in their organizational objectives and missions. While an investor-owned firm must be concerned about the wel-

fare of its customers, its ultimate responsibility is to earn profits for its stockholders. For cooperatives, the profit motive is tempered by the need to be responsive to members’ needs (Clifford, 1984).

The orientation to group concerns, collective action, and to the welfare of all members distinguishes cooperatives from their noncooperative competitors. Thus, while both forms of business must subscribe to honest business ethics, cooperatives have a broader mission. Because of a commitment to the collective welfare of its members, cooperatives must have an ethical decisionmaking philosophy and structure that differs from those of its more narrowly focused competitors (Dunn, 1988).

Cooperative business practices should reflect their orientation to group needs and welfare. Ethical decisions in cooperatives, then, should reflect recognition and commitment to the user-control, user-benefit, and user-owner principles. Decisions that violate these three central tenets should be viewed as unethical.

Figure 3— **Methods of Doing Business Under Private Enterprise**

Features Compared	Individual	Partnership	Investor	Cooperative
Who uses its services?	Non-owner customers	Generally non-owner customers	Generally non-owner customers	Chiefly the owner patrons
Who owns the business?	The individual	The partners	The stock-holders	The member patrons
Who votes?	None necessary	The partners	Common stock holders	The member patrons
How is voting done?	Not necessary	Usually by partners’ share in capital	By shares of common stock	Usually one member, one vote
Who determines policies?	The individual	The partners	Common stock holders and directors	The member patrons and directors
Are returns on ownership capital limited?	No	No	No	Yes--usually 8 percent or less
Who gets the operating proceeds?	The individual	The partners in proportion to interest in business	The stock-holders in proportion to stock held	The patrons on a patronage basis

Source: Baarda, 1986; see also Torgerson, 1972:7

Treating all members the same is a basic tenet of cooperation. Because there may be differences in interpretation between equal and fair treatment, it is important that cooperative members be involved in discussions about treatment. A competitor has more flexibility in making decisions and can make special deals or prices to preferred customers.

In cooperatives, however, all prices should be posted and available to all members. While prices may vary because of differences in volume or handling cost, all members who meet the requirements for discount prices should be able to take advantage of the posted price schedules. Equality of membership is an ethical principle of cooperation (Gray and Mahoney, 1992).

Beyond the economic welfare of its members, cooperatives should consider their responsibilities to support activities that strengthen group identification and membership development. Lessons in democratic processes, such as elections, serving on the board of directors, membership meetings, exercising leadership, and collective decisionmaking, contribute to the development of members. Sponsoring local events, providing scholarships, demonstrating community involvement, taking an active role in community events and other activities demonstrates an ethical position of commitment to the welfare of its members beyond agricultural prices.

The cooperative is ultimately responsible to both its owners and its customers. Because members are both customers and owners, there should be fewer conflicting interests than in an investor-owned company. Nevertheless, many conflicts of interest arise within cooperatives such as if the grain price offered to one member, a director for instance, plus the handling cost, exceeded the price that the cooperative could obtain for the grain.

In this case, cooperative equity would be transferred from all other members to one member. Other potential conflicts of interest can arise within a cooperative. One guiding principle in establishing an ethics policy is that the cooperative should engage only in economic activities that contribute to an increase in earnings available to all members. Any pricing or service activity should cover all variable costs and make some contribution to coverage of fixed costs. If this principle is followed, every economic activity will increase the total equity for its members.

One important ethical question within a cooperative is, "What is the responsibility of a member to the cooperative?" How much loyalty should a cooperative expect from individual members? Member loyalty historically has been a problem with cooperatives (Craig,

1982-83). Farmer members have a history of seeking out the highest bid for their grain or the lowest price for their farm production supplies. In too many cooperatives, there also is a history of members not attending annual meetings. Should cooperatives somehow insist that members stick to their implied agreement of support?

One of the first attempts to ensure member loyalty occurred in an Iowa cooperative. On June 7, 1900, the Farmers Cooperative Society at Rockwell imposed a penalty clause on its members (Holman, 1947).

Here's how it worked: Assume a farmer-member brought grain to the cooperative to sell. The independent competitor elevator at Rockwell offered the farmer two cents more per bushel than the cooperative. The member was free to accept the higher bid from the competing independent elevator. However, the penalty clause required the member to pay a one-half cent per bushel commission to the cooperative.

If the farmer refused to pay the commission, membership in the cooperative was suspended until it was paid. The farmer could continue to sell or buy from the cooperative while under suspension but would be paid one-quarter of a cent less for grain and would be charged 25 cents per ton more for coal.

For 40 years the penalty clause was successful in maintaining member loyalty. By the time the penalty clause was ruled illegal in 1930, patronage refunds had become the major motivation for members to remain loyal.

In recent years, additional forces have tended to erode member loyalty to a single cooperative. Roads were improved and farmers began buying trucks which substantially increased their marketing options. Over time, the number and size of farm trucks and their traveling capacity increased.

Improved county, state, and interstate roads have enabled farmers to quickly access distant grain markets. This increased mobility has encouraged farmers to become members in two or more competing cooperatives. Multiple memberships blur the answer to the question to which cooperative the members should be loyal.

Second, improved communications have enabled farmers to compare the bids offered by distant elevators. Farmers have wider choices of prices and markets to sell grain. The improved communications and mobility have, to some extent, diluted one of the original purposes of cooperatives.

Third, many cooperatives have followed a practice of deferring the payment of a portion of declared patronage refunds. For tax purposes, cooperatives are

required to pay a minimum of 20 percent of the current declared patronage refunds in cash. The remainder can be deferred for 5, 10, 15, or even more years. The longer the patronage refunds are deferred, the lower the value the farmer places on future refunds.

Fourth, in the past two decades, mergers and consolidations have reduced the number of local farmer-owned cooperatives. Those remaining have become much larger in sales, area served, and number of members. As a result, some members feel less involved than in the past and, therefore, have less loyalty. Moreover, each member's business has a smaller impact on the welfare of the cooperative, making the member feel less guilty about taking part or all of his business elsewhere.

Perhaps the best way cooperatives can earn and retain the loyalty of their members is to provide the best prices, services, and communications and in an ethical manner so that each member strongly believes that this cooperative conducts all of its business with honesty, fairness, and integrity. But honest business practices alone do not distinguish cooperatives from most private companies. The uniqueness of cooperatives is their commitment to the welfare of the entire membership, rather than being focused on just individual economic welfare.

Current Dilemmas and Structures

Members, directors, and managers may sense conflicting expectations in attempting to fulfill the three central principles of cooperation outlined by Dunn (1988). Cooperatives operating in an extremely competitive environment may find members being lured away by incentives offered by private companies or even other cooperatives.

These competitive pressures may test the ethical standards of cooperative directors, managers, and individual members and may contribute to them crossing over the line of ethical acceptability. While individual greed and dishonesty play a part, financial stress, unrealistic expectations, rules and regulations, organizational exploitation, and communication breakdowns present additional reasons or justifications for unethical behavior.

High debt loads and low profit margins create financial pressure that weakens the ethical resolve of some patron members and affect their relationship with their cooperative. Managers striving to treat everyone equally often feel isolated and vulnerable to excessive criticism for poor performance of the cooperative. Some directors may seek preferential treatment or abdicate their board responsibilities.

Examples of the excuses heard in justifying unethical cooperative practices include: "It's hard to survive on honesty; Ethics are easier when you're making money; and Ethics fall when your back is to the wall."

The structure of cooperatives is often blamed for ethical dilemmas. In some cooperatives, directors receive either very inadequate or no compensation for their service. Historically, directors were not paid because it was felt that any compensation would place them in a conflict of interest.

As a result, many cooperatives have had difficulty getting good leadership on their boards. Is it good business or even reasonable to expect volunteers to be current on the range of complex business decisions that cooperatives must address? In other cases, directors receive a token per diem for each meeting to help defray travel expenses. Generally, a range of \$25 to \$50 per meeting is a mere pittance for the responsibilities and expectations held for board members.

When cooperatives were small, community-based organizations, it was often assumed that members would take their turn in serving on the board. As small organizations, board decisions were quite visible, and local peer pressure served to ensure responsible board actions. However, as cooperatives have grown and often cover several counties, the board's action may be less visible. Yet directors' responsibilities have grown exponentially, along with additional personal liability. The growth in size and complexity of some cooperatives suggests that in some cases relying on a volunteer board hampers getting the best qualified individuals to serve.

Some cooperatives pay employees only the minimum wage. Members and employees sometimes experience harassment (racial, sexual, ethnic, and age-related) that creates a hostile and an unethical working environment. Increasing managerial complexity and inadequate recruitment and training of directors may contribute to their abdication of responsibilities for the organization. In some cases, complaints are heard that the local board of directors is nothing but a rubber stamp for the manager or the regional cooperative.

Ultimately, it may be the general lack of understanding of cooperative principles and practices that leads to disregard for ethical conduct. The late Gene Clifford, a cooperative educator with the former Cooperative League of the USA and later with National Rural Electric Cooperative Association, described it well. "Many of America's cooperatives right now are in desperate need of greater understand-

ing all around...without knowledge of the cooperative heritage, there is no glue to hold membership together" (Clifford, 1984:163).

Emphasizing Ethical Standards

If cooperatives wish to be viewed as unique forms of business within rural communities, they must distinguish themselves from other noncooperative businesses. A commitment to business ethics may be the most important factor available to cooperatives to distinguish themselves from other forms of business.

Given marketplace pressures and the emphasis on the "bottom line" in terms of prices, quality, and service, it may become increasingly difficult for cooperatives to "beat their competition." As higher volumes of products move to or from the farm through contractual arrangements with suppliers and processors and further erosion in open-market trading occurs, it will be difficult to provide precise and direct price comparisons.

However, cooperatives may be able to capture increased market share by stressing ethical principles that sets them apart from their competitors. The principles of cooperation and commitment to business ethics can serve to highlight their unique role in agriculture.

Why Emphasize Ethics

Building trust among members and between members and their cooperatives lies at the heart of maintaining strong agricultural cooperatives. To achieve this goal, more attention is needed on how to make ethical decisions and incorporate ethical dimensions into the everyday operations of cooperatives. While much attention has been given to the economic or financial side of cooperatives, there is a paucity of information on how to raise ethical standards.

It is an old maxim that people want to do business with organizations they can trust. Given the immobility of assets and the relatively fixed-trade areas that farmers can realistically buy and sell into, it is in farmers' best interest to have strong, viable, ethical cooperatives.

Similarly, it is in a cooperatives' long-run interest to attract and maintain members. A higher code of business ethics fits within the general discussion of non-price competition.

In addition to emphasis upon price, service, and quality, cooperatives may be able to strengthen their relative positions by placing emphasis upon "doing the right things." That does not mean that "doing things right is not important," but by "doing the right thing" the cooperative will increasingly be judged by

members as more important. Doing things right by maximizing profits for the cooperative with little or no attention to unanticipated consequences for members may erode long-term loyalty.

For example, cooperatives entering into swine production may enhance the profits of the organization, but ignoring producer perceptions that their cooperative is a competitor may undermine membership loyalty.

Futurists contend that social responsibility and ethics will become more important considerations for consumers and that these issues will increasingly impinge upon business decisions. If so, cooperatives may be able to "get ahead of the curve" by implementing codes of ethics that set them apart from their competitors.

Here are some reasons why ethical behavior is important to the success of cooperatives:

1. The cooperative is not an anonymous entity. Unethical behavior can often be clearly detected. In many rural communities, the cooperative may be the largest and sometimes the only business in town. Because of its prominence in the community and the visibility of its actions, the cooperative cannot hide from accusations of unethical behavior.
2. The cooperative has a lasting commitment to its market. Most cooperatives have large investments in immobile facilities. Moreover, the owners-customers are permanent residents in the market area. Thus, the cooperative cannot easily leave the community.
3. The cooperative thrives on repeat customers. Unethical behavior will drive offended customers to a neighboring business or cooperative.
4. Many cooperative members own stock in more than one cooperative and are able and willing to switch to a competing cooperative to do business.
5. Given improved roads and the increasing size of farm vehicles, farmers are able to deliver their products to or purchase supplies from more distant markets. Farmers can easily shift marketing and purchases if they perceive they are treated unfairly.
6. The declining number of farmers is expected to continue. Customers lost by unethical behavior are difficult to replace.
7. Farmers are unlikely to keep unethical behavior a secret. To the contrary, some farmers delight in coffee shop talk that details any favorable or unfavorable treatment received from the cooperative.
8. Unethical behavior that is also illegal can be punished by legal action. In 1994, a former grain mer-

chandiser of a large local cooperative was sued for the loss of about \$1 million during the fiscal 1993. The defendant has since filed a voluntary petition for bankruptcy and his career in cooperatives has been seriously compromised.

9. Ethical behavior is the right thing to do and rewards the ethical person and cooperative with greater personal satisfaction and respect.
10. People are naturally attracted to persons and organizations perceived to be honest and ethical. Thus, cooperatives have an opportunity to become leaders in raising the level of ethics in rural communities and, at the same time, enhance the status of the cooperative.

Chapter 4. What Members, Managers, and Directors Say About Ethics

“An ethical person often chooses to do more than the law requires and less than the law allows—there is a difference between what you have a right to do and what is right to do.”

Justice Potter Stewart

“Ethics is the name we give to our concern for good behavior. We feel an obligation to consider not only our own personal well-being, but that of others and of society as a whole.”

Albert Schweitzer

Have Ethical Standards Changed?

In discussing ethical standards in cooperatives, consider how the agricultural economy and rural society have changed. Michael Boehlje (1987:372) has observed, “There appears to be changing standards in rural communities compared to earlier years. The ‘your word is your bond’ attitude is no longer standard. Rural people are not necessarily becoming blatantly dishonest, but they are more willing to accept the gray area between right and wrong and accept less than pure business decisions.”

It appears that interest in cooperative ethical standards is only a part of the larger set of issues that are being raised about how rural people relate to each other and the level of trust that exists among rural institutions and their clients. Exercise 2 in the worksheets can stimulate discussion on how you believe ethics have changed.

More than one-half of the 900 farmers who responded to a *Farm Futures* poll (Knorr, 1991) agreed that producers’ ethical standards have declined. Most

respondents said they had personally observed neighbors stepping beyond ethical bounds at least several times a year.

In this poll, several comments supported the argument that ethical standards have declined. “It is amazing to me how many people brag about cheating on crop insurance, income taxes, the Agricultural Stabilization and Conservation Service (ASCS), etc.,” reported an Ohio farmer. An Iowa farmer, who chaired his county ASC committee wrote, “I think some people stay up nights trying to figure out a way to beat the Government.”

In response to a hypothetical situation as to whether they would report a pesticide tank spill on their farm, 70 percent indicated they would report it immediately, 19 percent would wait and see if a problem developed, and 9 percent wouldn’t do anything. This survey of commercial producers acknowledges that some may act in unethical ways.

To better understand whether farmers believe ethical standards have declined within the agricultural economy and in rural communities, several questions were included in a statewide survey of 2,390 randomly selected Iowa farmers. Findings from the 1993 Iowa Farm and Rural Life Poll shows that producers are concerned about the erosion of ethics.

- 88 percent felt “in general, ethical standards in society have declined.”
- 91 percent agreed “at one time a person’s word was as good as a signed contract; now you must first get it in writing.”
- 88 percent said “I used to take a person’s word as a measure of his/her honor, but nowadays you can’t always simply accept what a person tells you.”
- 54 percent said “even among friends and neighbors, I am concerned that they no longer feel obliged to honor their word,” 36 percent disagreed, and 10 percent were unsure.
- 49 percent said “often people admit they are not being ethical in paying the full amount of their taxes,” 30 percent were not sure, and 21 percent disagreed.
- 88 percent agreed “one reason ethical standards have declined is that people have lost respect for authority,” 11 percent were unsure, and 11 percent disagreed.

- 52 percent said “farmers’ ethical standards have declined,” 17 percent were unsure, and 31 percent disagreed.

Responses from the 1993 Iowa Farm and Rural Life Poll clearly indicate that respondents generally perceive a decline in ethics (table 2).

Among the nine subgroups surveyed, cooperatives ranked sixth in terms of the proportion of respondents who felt ethical standards had declined. **Thirty-five** percent said ethical standards among cooperatives have declined in the past 10 years, **11** percent said they had improved, and 54 percent felt they had remained the same. Thus, more than three times as many people thought ethics had declined in cooperatives rather than improved.

Focus Groups Assess Ethical Issues

In late 1993, three focus group meetings were organized with cooperative managers and directors in Iowa to discuss ethical issues in cooperatives. They focused on the types and causes of ethical problems and issues facing cooperative managers and directors. Discussions identified ethical issues and problems that they have encountered or have heard about in their experience as cooperative personnel.

I. Shirking Responsibilities

The cooperative managers and directors cited several examples of responsibility avoidance behavior in cooperatives:

Table 2— Farmers’ perceptions of changing ethics over the past 10 years, “How have the ethical standards changed among the following?”

	Declined	Remained the same	Improved
	percent		
Elected officials	78	19	3
Youth & young adults	67	29	5
Lenders	49	39	12
Farmers	41	52	7
Local merchants	38	55	7
Cooperatives	35	54	11
Local agribusiness	30	60	10
Elevator managers	28	60	12
Neighbors	26	66	8

Source: Lasley, 1993 Iowa Farm and Rural Life Poll

- a. Some boards of directors have become too lax and trusting of the manager. This shirking of responsibilities often allows the manager to operate the cooperative like it was his own business. While it is clear that directors should not engage in the day-to-day decisionmaking, they have the responsibility to set overall goals, objectives, and policies, and to measure progress toward them.
 - b. The focus group meetings indicated that some directors are reluctant or embarrassed to stand up and ask questions. Saying, “I don’t understand,” makes them appear “stupid.” The focus groups indicated that failure to ask questions and relate goals and objectives to performance shirks responsibility. The groups indicated that both managers and directors sometimes shirk their responsibilities by allowing unfavorable or unethical events to progress too far before taking corrective action.
 - c. Shirking responsibilities occurs when the manager or directors fail to acquire the necessary information or skills to adequately fulfill their responsibilities. For example, some directors may not understand financial statements and therefore can’t adequately evaluate the cooperative’s performance or investment proposals.
 - d. The focus groups indicated that some cooperatives maintain little control over some business expenses, particularly travel expenses. The managers and sometimes directors and employees may tend to take advantage of uncontrolled travel expenses by attending unnecessary meetings and by charging excessive travel expenses to the cooperative. Focus group participants indicated that some managers lease their cars to the cooperative and then use one for both business and personal uses.
 - e. The focus groups indicated that sexual harassment of female employees by managers, employees, and members takes place in some cooperatives. Examples of sexual affairs and activities in cooperative offices are far too numerous. Moreover, even racial and ethnic harassment exists.
- II. Business dealings with relatives, friends, or management in private business include:

- a. Managers and directors give preference to friends and relatives for job vacancies, possibly hiring a less qualified person.
- b. Directors grant special favors or price advantages to friends or relatives. Requests for special favors may be difficult to deny, especially if the person making the request is a large business account who may take his or her business elsewhere. Likewise, granting favorable settlements to friends or relatives of directors may be unethical but difficult to deny.
- c. Managers selling grain or buying supplies for his or her private business, generally a farm business. They must be careful and demonstrate that they are not using their position for favorable treatment at the expense of the cooperative.

III. Sales Incentives

- a. All focus group discussions indicated that most cooperatives face ethical problems in accepting gifts, bonuses, and giveaways for

shifting purchases or sales to a competing firm. Chemical purchases were cited most often by the focus groups. Chemical companies frequently offer trips to vacation areas if the manager will shift the cooperative's purchases to the offering companies. One manager reported a chemical salesman laid a \$20,000 check made out to the manager on the corner of his desk and said "We would like your chemical business." Such offers are considered bribes. Often, "prizes" like jackets, televisions, VCRs, and other merchandise are awarded by suppliers if cooperatives meet or exceed certain sales goals. These so-called prizes create ethical problems not only in purchase decisions but also in deciding who will receive the awards. One group cited a manager who left an implied message with salespeople, "Don't stop if you don't have a gift."

- b. One focus group cited a case of the retiring manager of a neighbor cooperative whose salary was based, in part, on total sales of the cooperative. Therefore, the greater the sales, the larger his salary. Prior to his retirement, the manager "cleaned out" most of the grain and supply inventories at less than optimal prices to insure a large sales bonus prior to his retirement.

- c. The groups also discussed cases of cooperatives offering higher prices for grain to farmers located in the sales territory of neighboring cooperatives just to get the grain. They said that, in some cases, prices offered may have exceeded the current value of the grain if handling costs were included. Reference was made that this is simply "buying the market." In these cases, the cooperative is transferring members' equity to individual customers, and over time will "simply bleed the cooperative dry." In addition, offering prices above the market to attract new patronage and members violates the principle of cooperation among cooperatives. In the noncooperative world, this practice is often viewed as predatory pricing. Other participants mentioned that often cooperatives intent upon expanding their market would use such a ploy as a price-loss leader and would try to cover the losses they incurred in paying too much for the grain by then trying to sell the new patron feed or other supplies. In other cases, grades are based on the average of all loads rather than on individual loads. In some cases, discounts exceed the cost savings from the larger volumes.

IV. Pricing

- a. Offering grain bids to selected farmers that differed from the posted bids was considered unethical by some, but not by all focus group members.
- b. It is obviously unethical to lie about grain bids. For example, telling one farmer, that a nonposted bid had not been offered to another farmer, when indeed it had been offered, is unethical.
- c. The focus groups indicated that some managers pay a higher-than-posted bid for grain from his own farm or for grain delivered by a director or friend.
- d. In some cases, sales were priced below variable cost or grain purchased at a margin less than variable handling costs. In each case, the cooperative would lose money on the purchase or sale. In effect, the cooperative would be transferring equity from all members to one or a few.

V. Illegal Business Practice

All illegal practices were considered to be unethical. Illegal practices mentioned by the focus groups included:

- a. stealing,
- b. collusion,
- c. fraud,
- d. defaulting on contracts, and
- e. product adulteration.

The public perceives that the grain industry has a long history of adulterating its product. The focus groups indicated that farmer members are among the worst offenders. Some farmers placed wet spoiled grain at the bottom of the load so it would not be detected by sampling probes. Some cooperatives did the same by loading low-quality grains at the bottom of trucks.

The focus group meetings consistently revealed declining ethical standards among cooperatives. The groups suggested that as many as one-third to one-half of cooperative managers periodically engage in some form of unethical behavior. Moreover, interviews reported that a substantial proportion of cooperative directors and members also engage in unethical behavior. Young farmers, particularly those with college degrees, were cited as displaying some of the most unethical behavior.

Reasons for Unethical Behavior

1. There is extreme pressure on managers to obtain higher savings with lower prices. One focus group manager expressing his frustration said, "Any manager can make a profit if he does not have a conscience."
2. In some cases, managers run the cooperative like a private business. The boards have relinquished their roles. Without board participation, including necessary feedback, it is easy for the manager to become slack, let ethics slide, and submit to pressure from individual members, customers, and salespeople.
3. There may be too many cooperatives. Losing a customer is very difficult to accept as the number of farms decline, the size of farms increases, and gross margins decline. Moreover, individual members

often ask for a special deal but don't want others to get it. Focus group participants suggested that some members are willing to let the cooperative bleed away through special deals for individual gain. They felt that a reduction in the number of cooperatives would relieve the pressure on managers to make special deals.

4. With the complexity and increased size of cooperatives and the proliferation of rules and regulations, the job of managing a cooperative is becoming increasingly complex. And those most qualified to serve on the board of directors are often reluctant. Many members believe that there is little incentive to serve on the board or to take the director's role seriously. The \$25 to \$35 honorarium per board meeting means directors frequently earn less than minimum wage for their service.
5. The changing structure of agriculture means that fewer farmers have greater economic power over cooperative managers and directors. Some focus group members believe that contracting with producers results in the cooperative competing with individual producers.
6. Some believe that young farmers lack an understanding and appreciation of the role of their own cooperative. Some commented that college educated farmers display some of the most unethical behavior. Perhaps young farmers with heavy debt loads, along with less loyalty and wanting to be successful quickly, contributes to cutting corners and unethical behavior.
7. Reduced farm profitability, along with weather-related disasters (floods and droughts), have placed many farmers in precarious financial positions—some on the edge of bankruptcy. This may contribute to declining ethics. Some believe that ethics would improve with better farm profits.

Regardless of the reasons for unethical behavior, there is a strong belief that agricultural cooperatives and agriculture would fare better if ethics in cooperatives improved.

Chapter 5. Tools To Improve Ethical Conduct in Cooperatives

“Good ethics doesn’t just happen. It has to be planned.”
Verne E. Henderson

In his 1986 book “Everything I Need to Know, I Learned in Kindergarten,” Robert Fulgrum presents a delightful essay on how many of the rules needed to lead a successful life are taught in kindergarten. Many ethical dilemmas can be avoided by following some simple rules, but there are hazards in thinking that everything has a simple solution. In this section we synthesize some of the major works that may help cooperatives improve their ethical standards.

Most philosophers believe that people rarely set out to behave unethically. Instead, moral and ethical predicaments emerge as a result of conflicting personal, organizational, or professional obligations. People often lack adequate skills to negotiate these predicaments or to achieve ethical decisionmaking. For cooperatives, competitive pressures, growing organizational complexity, and regulatory paradoxes increase the likelihood that ethical dilemmas will confront managers, employees, directors, and members alike. The following examples (Laczniak and Murphy, 1991; University of Minnesota Extension Service, 1993) can guide cooperatives in becoming more aware of ethical considerations and raising ethical standards. These examples are intended as guides in deciding whether an action is ethical.

Guides for Deciding If an Action Is Ethical

1. The Golden Rule
 - “You act in a way that you would expect others to act toward you” or “treat others as you would like to be treated.”
2. Professional Ethic
 - You take only those actions which would be viewed as “proper” by an objective panel of your professional colleagues.
3. Kant’s Categorical Imperative
 - Ask yourself, “What if everyone behaved this way?”
4. Child on Your Shoulders
 - Would you proudly make the same decision if your young child were witnessing your choice?

5. “TV Test”
 - Could you explain and justify your actions to a general television audience?

Danger Signs of Unethical Actions

Cooke (1991) has identified 14 danger signs within organizations that suggest potential unethical conduct. They may be appropriate for an initial assessment of whether your cooperative is at risk. Here is Cooke’s checklist as modified to fit cooperatives:

1. A cooperative creates a climate for unethical behavior if it normally emphasizes short-term revenues above long-term considerations. Complex ethical dilemmas require objective assessment that is not continually constrained by a myopic focus on next quarter’s earnings. Most solutions require long-range commitments.
2. Any cooperative that routinely ignores or violates internal or professional codes of ethics is at risk. The risk is diminished if the cooperative integrates professional standards within the organizational culture, regularly monitors compliance, and applies appropriate sanctions.
3. Any cooperative that always looks for simple solutions to ethical problems and is satisfied with “quick fixes” is at ethical risk. The majority of situations are ambiguous. Complexity requires a thoughtful analysis.
4. A cooperative encourages ethical shortcuts if it is unwilling to take an ethical stand when there is a financial cost to the decision. Any short-term gain is usually overshadowed by long-term financial loss that follows the disclosure of unethical behavior.
5. Any cooperative that creates an internal environment that either discourages ethical behavior or encourages unethical behavior is at risk. Too many cooperatives ignore the consequences of the implicit messages sent by policy decisions that either directly or indirectly discourage ethical behavior. Organizational culture is important in shaping values that determine ethical responses.
6. A cooperative is at risk when it sends ethical problems to the legal department. Ethics is not simply a matter of compliance with existing laws and regulations.

7. A cooperative is at ethical risk if it looks at ethics solely as a public relations tool to enhance its image. A cooperative's ethical reputation is not determined by a press release.
8. Any cooperative that treats its employees differently than its customers encourages unethical behavior. It reflects an arrogance that creates distrust and hostility within the organization. This makes it difficult to equitably resolve ethical dilemmas that **may originate** outside of the cooperative.
9. Any cooperative that is unfair or arbitrary in its performance appraisal standards is at risk. Lack of standardization leads to favoritism and cronyism that tears at the social fabric of the organization and creates a serious morale problem. When merit is replaced by political influence, the ensuing organizational climate encourages unethical behavior.
10. A cooperative is at risk if it has no **procedures** or policies for handling ethical problems.
11. Any cooperative that provides no mechanism for internal whistle blowing is at risk. A cooperative must provide ways to bring potential problems to the attention of upper management and other interested parties, otherwise it appears that unethical behavior is tolerated, if not condoned.
12. Any cooperative that lacks clear lines of communication with the organization encourages unethical behavior. The problems get out of hand before most managers realize one exists. Cover-up attempts usually backfire.
13. Ethical risk occurs if a cooperative is only sensitive to the needs and demands of the shareholders. Other individuals and groups also have a stake in the actions of the cooperative and should not be ignored.
14. Any cooperative that encourages people to leave their personal ethical values at the office door is at risk. Whenever there is a sharp line drawn between personal values and work values, ethics are at risk. Many cases of cooperative impropriety could be avoided if people would ask themselves if the values conveyed by the cooperative were consistent with their personal ethical beliefs.

Exercise 6 provides a copy of this checklist that may be photocopied and used in a group setting to assess whether the cooperative is at risk.

How To Improve Ethical Conditions

Von der Embse (1984) described six actions an organization should take to improve the ethics of its members.

1. **Ethics management**-The organization must make ethics an integral part of management decisions.
2. **Issue identification**-The organization must distinguish the ethical and moral issues of day-to-day activities within the organization and decide which issues (and activities) take precedence.
3. **Values Clarification**-Organizational values should be consistent with the larger culture.
4. **Decisionmaking**-In complex decisionmaking, there is usually more than one ethical choice.
5. **Organizational Support**-Cultural and **organizational** supports **must** be identified. **Ethical judgments** should not be ad hoc, but rather rooted in substantive principles and applied consistently.
6. **Commitment**-Decisions imply and require commitment by all stakeholders in the organization.

These six steps demonstrate that improving ethics should be approached as a long-term process rather than an event. Simply announcing or unveiling a new code of ethics is inappropriate, unless it has been developed through a consensus process involving all stakeholders.

Is An Action Ethical?

Laczniak and Murphy (1991) suggested asking the following questions to assess whether a contemplated action is ethical or has possible ethical consequences:

1. Does the contemplated action violate law?
2. Is this contemplated action contrary to widely accepted moral obligations such as duties of fidelity, gratitude, justice, obeying the law, and providing benefits to members?

3. Does the proposed action violate any other **special** obligations which stem from tenets of cooperative organization?
4. Is the intent of the contemplated action harmful?
5. Would people or organizations be damaged by the contemplated action?
6. Is there a satisfactory alternative action which produces equal or greater benefits to the parties affected than the proposed action?
7. Does the contemplated action infringe upon the inalienable rights of the consumer (right to information, to be heard, to choose, and to redress)?
8. Does the proposed action leave another person or group less well off? Is this person or group already a member of a relatively underprivileged class?

Aram (1987) contends that many ethical predicaments can be avoided by giving priority attention to governance, negotiation, and procedure. Organizations need to “confirm or redefine their objectives, clarify ambiguities that arise in tasks and responsibilities, and upgrade human resources in capabilities and expectations” (Aram, 1987:38). For cooperatives, understanding their reason for existence, goals and mission, how decisions are made, and who is responsible may help avoid unethical behavior.

All the cooperative’s employees and members should understand its goals and objectives. Responsibility for communicating them resides with the board of directors and manager. An organization that values ethical conduct and moral behavior can create a climate that fosters ethical decisionmaking by its members. Hoffman (1986) identifies two necessary criteria for ethical excellence within organizations.

The first is the moral autonomy of the individual within the organization and the second is the ethical organizational (corporate) culture. Decisions to behave ethically or unethically are influenced by individual and situational factors-background, personality, decision history, managerial philosophy, and reinforcement, among others. Management of ethics requires that all levels of the organization “engage in a concentrated effort which involves espousing ethics, behaving ethically, developing screening mechanisms, providing ethical training, creating ethics units, and reinforcing ethical behavior” (Stead et al, 1990:233).

Creation of an ethical climate within the organization is paramount. “Policy is implicit in behavior” (Andrews 1989:102). Business organizations say much more than they realize by the ethical aspects of product quality, personnel, advertising, and marketing decisions. But as “in all policy formulation and implementation, the department of management, development of relevant policy, and training in its meaning and application are not enough” (Andrews 1989:103). Continual monitoring or auditing of organizational ethics is also required to avoid circumventing organizational responsibility for ethics management.

Ethics Management

Communication is critical to the management and assessment of organizational ethics. Organizations must determine their ethics policy and make it explicit. The policy should be expressed in organizational language and written statements which both prescribe and continually reinforce exemplary behavior, while prescribing and condemning unacceptable behavior.

Most commonly, these statements take the form of published codes of ethics, but they may also be individual policies regarding conflicts of interest, discrimination, harassment, and member loyalty. Codes of conduct or ethics are effective only if backed up by a conducive culture and attention that communicates their importance.

“Many organizations use training sessions to discuss the problems of applying their ethical standards. Such discussion, if carefully conducted, can reveal the inadequacy or ambiguity of present policy, new areas in which the organization must take a unified stand, and new ways to support individuals in making the right decisions” (Andrews, 1989:102). Ethics seminars, programs, training and education, ethics “audits,” and review panels are additional mechanisms.

Addressing Ethical Issues

Andrews (1989:100-101) suggested that organization members need three qualities to maintain ethical conduct:

1. Competence to recognize ethical issues and to think through the consequences of alternative resolutions.
2. Self-confidence to seek out different points of view and to decide what is right at a given time and place and in a particular set of relationships and circumstances.

3. Willingness to make decisions when all that needs to be known cannot be known and when the questions that press for answers have no established and unquestionable solutions.

While cooperatives should be alert to these qualities when recruiting employees, these traits can be acquired and honed by training. Individuals can benefit from training and skill building in ethical decision-making. The first step is to understand how decisions are made. Few cooperative decisions are based on evaluating options and solutions.

This is one reason that ethical principles and decisionmaking must be incorporated into an organization's day-to-day thinking and activities (Smith, 1990). "Most employees want to act ethically and work with an organization that has integrity" (Finn, 1988:8). Cooperatives must demonstrate support for ethical conduct. A comprehensive code of ethics and employee training are key structures that can provide this support.

Codes of ethics and training on ethical decision-making provide advance exposure to potential ethical dilemmas; coupled with training in the application of problem solving techniques, managers, directors, staff, and members are provided with increased likelihood that they will make the right decisions when they encounter similar dilemmas on the job.

Although some debate whether codes of ethics are effective in guiding ethical decisionmaking within organizations, the dominant view is that these codes are vital in communicating the expectations and commitment of management to maintain high ethical standards and business practices. The literature provides numerous examples of codes of ethics used in businesses, corporations, various professions, academic and research groups, governmental agencies, and national and local cooperatives. Although each has unique aspects, there are also many similarities.

Madsen and Schafritz (1990:219-220) reviewed hundreds of corporate codes of ethics and identified several similar "clusters" including:

- A. Be a dependable organization citizen.
 - B. Don't do anything unlawful or improper that will harm the organization.
 - C. Be good to our customers.
- A. To be a "dependable organization citizen" codes of ethics prescribe:
 1. Demonstrate courtesy, respect, honesty, and fair-

ness in relationships with customers, suppliers, competitors, and other employees.

2. Comply with safety, health, and security regulations.
3. Follow directives from superiors, be punctual and reliable in attendance, dress in businesslike attire, and manage personal finances in a manner consistent with employment by a responsible company.

B. These codes also seek to censor use of abusive language or actions, possession of firearms, and use of illegal drugs or alcohol on company premises. To avoid unlawful or improper conduct that would harm the organization, corporate codes prescribe:

1. Maintain confidentiality of customer, employee, and corporate records and information.
2. Avoid outside activities which conflict with or impair the performance of duties.
3. Make decisions objectively without regard to friendship or personal gain.
4. Conduct personal and business dealings in compliance with all relevant laws, regulations, and policies.
5. Comply fully with antitrust laws and trade regulations.
6. Follow accepted accounting rules and controls.

These codes also seek to prohibit "the acceptance of any form of bribe; payment to any person, business, political organization, or public official for unlawful or unauthorized purposes; provision of false or misleading information to the corporation, its auditors, or a government agency; use of company property or resources for personal benefit or any other improper purpose; and having any interest in any competitors or supplier of the company unless such interest has been fully disclosed to the company."

- C. To be good to customers, codes of ethics prescribe:
1. Strive to provide products and services of the highest quality.

2. Perform assigned duties to the best of your ability and in the best interest of the organization, its shareholders, and its customers.
3. Convey true claims for products.

Other recommendations were: “exhibit standards of personal integrity and professional conduct; report questionable, unethical and illegal activities to your manager; seek opportunities to participate in community services and political activities; conserve resources and protect the quality of the environment in areas where the company operates.” And the “unclustered” category included prohibitions against racial, ethnic, religious, or sexual harassment, and against members of the organization recommending attorneys, accountants, insurance agents, stockbrokers, real estate agents, or similar individuals to customers. These sample entries demonstrate the range of concerns expressed within codes of ethics:

1. Obeying federal, state, and local laws is a minimum basis for measuring ethical and legal conduct.
2. Cooperative policy does not sanction accepting gifts except for items of nominal value. This prohibition does not preclude exchange of ordinary hospitality such as lunch or dinner.
3. Individual self-interest should never be permitted to conflict with or take precedence over the interest of the cooperative. Be alert to all potential conflicts, direct and indirect, and resolve all such perceived conflicts in the cooperative’s favor. A conflict which may appear to be present should be disclosed immediately to the individuals’ superior or the board of directors.
4. Honesty and integrity are essential to maintaining the company’s respected name. Establishment and preservation of such respect is a factor in every decision and activity.
5. Failure to consider the rightness of actions would jeopardize the integrity of the cooperative.
6. Perjury or any illegal act ostensibly taken to “protect” the company is wrong, just as is a sale made because of deception. Equally wrong is a production quota achieved through questionable means or figures. The end does not justify the means.
7. The cooperative will not engage in any activity, regardless of its profitability, if it is incompatible with ethical behavior. Emphasis on employee safety, product quality, and equitable dealings with customers and suppliers relates to ethical considerations as much as economics.
8. The directors and employees pledge themselves to complete loyalty to the cooperative that elects or employs them and will:
 - a. aggressively pursue its objectives;
 - b. hold inviolate the confidential relationship between the individual members of the cooperative and us and the confidential information entrusted to use thorough the cooperative office;
 - c. serve all members of the cooperative impartially;
 - d. provide no special privilege to any individual members, nor accept special personal compensation from any individual members, except with the knowledge and consent of all other members;
 - e. neither engage in, nor tolerate, any exploitation of the cooperative;
 - f. recognize and discharge their responsibility and that of the cooperative to uphold all laws and regulations relating to cooperative activities;
 - g. exercise and insist on sound business principles in conducting the cooperative’s business;
 - h. use only legal and ethical means in seeking to influence legislation or regulation;
 - i. issue no false or misleading statements to the members or public;
 - j. refrain from the dissemination of any malicious information concerning other cooperatives or competitors;
 - k. accept responsibility for cooperating in every reasonable way with other cooperatives;
 - l. use every opportunity to improve public understanding of the principles of the cooperative form of business enterprise; and

m. maintain high standards of personal conduct.

Most current codes focus on acts that are illegal and punishable by law, but they fail to address unethical behaviors related to executive character, product quality, or civic responsibility, and few codes indicate behavior that is acceptable in specific situations (Raiborn and Payne, 1990).

Raiborn and Payne caution that codes of ethics must be prepared “for the right reasons,” avoiding any implications that they are only there for “public relations or window dressing.” They cite as major weaknesses those codes that are “accusatory, threatening, demeaning, unrealistic, or excessively legalistic” (1990:883). A successful code of ethics can guide cooperatives in ethical decisionmaking. But such codes need to be dynamic, ever-evolving documents able to respond to forces internal and external to the organization in order to reflect real and ongoing expectations of cooperative membership (Backof, 1991).

If cooperatives want to communicate their concern for a high level of ethical standards in the conduct of business and in the social responsibility of managers, directors, members, and employees, they will require a code of ethics tailored to their unique circumstances. Such a code might include prescriptions for the “willing compliance with the law, the exercise of due care, fidelity to special responsibilities, compliance with cooperative tenets and principles, trust and loyalty, avoidance of the appearance of a conflict of interest, acting in good faith in negotiations, respect for human well-being, and respect for the liberty and constitutional rights of others (Dean, 1992).

It is important to determine the level of specificity of a code of ethics, finding a balance between too much and too little detail. Codes require clarity, completeness, and enforceability: 1) they must be written in an understandable, concise, specific, and honest way; 2) they should cover virtually any conduct, with specific descriptions regarding expected behavior as well as violations; and 3) sanctions and punishment must be spelled out and carried out to reinforce that the cooperative is serious about compliance.

At the same time, because all violations cannot be spelled out in advance, the codes of ethics should be comprehensive enough to “envelop the spirit of ethics and morality” (Raiborn and Payne, 1990:883).

Although codes of ethics are critical, they do not, in themselves, contain the “emotional power of commitment to quality objectives—among them compliance with law and high ethical standards—is an orga-

nizational achievement” (Andrews, 1989:104). Source: Adapted from Iowa Institute of Cooperatives, 1992; Von der Embse, 1984; AGRI Industries, 1983.

Commitment Building

Organizations need to explore the processes essential to building commitment. This is particularly important to maintaining cooperative loyalty. But remember, commitment works two ways. “If loyalty and commitment aren’t returned or demonstrably appreciated, they will wither over time, and if loyalty is called on too frequently, it can be exhausted” (Craig, 1982-83:255).

Craig (1982-83:260-262) discusses six commitment-building processes:

- 1 Quality products and services build commitment. “A cost/benefit analysis can convince members that it is in their interest to be committed to the organization.” However, this is the most fragile form of commitment, from which members defect in tough times.
- 2 Investing money or time in the organization results in psychological commitment. “The need to sacrifice time or invest money to obtain membership in the cooperative reinforces the value of belonging.” Their commitment protects and enhances their investment.
- 3 Receiving a helping hand frequently results in feeling indebted to the organization. “If the cooperative sticks by its members in time of need, it’s easier for the members to feel close to the organization.”
- 4 Involvement through an elected position in cooperatives or through participation in young cooperator programs develops stronger loyalties. “The process of involvement in the organization strengthens commitment.” A second form of involvement is to act as advisors to directors, just as a representative democracy has a constituency or to act in groups of delegates and or within informal discussions to disseminate information.
- 5 “Cooperative education enables people to learn about the philosophy of cooperation and values underlying it, and relate them to their own ideological values... The process forces people to accept or reject the philosophy of cooperation. In accepting it, they will increase their ideological commitment to the organization.. . (But) this process must be contin-

uous... Material should emphasize cooperative games where everybody wins, rather than intensely competitive games which teach students to lose and consider themselves failures.”

6. Marketing strategies have a “direct relationship to how members evaluate the cooperative and whether they develop commitment.”

Commitment and loyalty both imply that members are part of their organization and see it differently from others in the community. Commitment processes are built or eroded in the day-to-day interaction between the member and people within an cooperative. Member commitment can be changed if a cooperative is prepared to evaluate itself and analyze its commitment-building processes.

Chapter 6. Materials for Cooperative Ethics Workshops

The authors believe that a series of four 1-hour workshops for employees, directors, and even members will help create a higher awareness of the major roles of ethics in cooperatives. The chapters in this report can serve as background reading prior to each workshop. In addition, a series of nine exercises are included in this chapter to facilitate discussion and understanding of the materials.

Each of the four workshops should focus on these assignments:

<i>Workshop</i>	<i>Reading Materials</i>	<i>Exercises</i>
1	Chapters 1 and 2	1
2	Chapters 3 and 4	2, 3, 4 and 5
3	Chapters 5 and 6	6 and 7
4	Chapter 6	8, 9, and 10

Each workshop should follow a discussion format with an assigned discussion leader, generally the manager or board president. Obviously, the discussion leader should be familiar with the materials in this report. The cooperative leadership should also be firmly committed to integrating ethics into everyday decisions and actions.

Chapter 2 discusses the importance for members to distinguish between morals and ethics. Exercise 1 discusses the differences between morals and ethics, and helps to identify four categories of people they encounter. Readers are encouraged to list examples that represent each of the four types.

Chapter 3 discusses the uniqueness of cooperatives and how they differ from other forms of business, and why ethics are critical for cooperatives.

Chapter 4 talks about growing concerns about perceived declines in ethical standards. Exercise 2 solicits opinions of cooperative employees, directors, and members about cooperative ethics. If there is agreement that ethics have declined, people will be more motivated to work through these materials than if it is not viewed as a problem. Exercise 2 will help people understand where ethics have declined and to compare their perceptions with those of others in the group.

Exercise 3 provides a place to record what cooperative employees, directors, and members perceive as unethical conduct. In addition to helping assess the importance of ethics to a cooperative, this exercise will help identify ethical concerns that should be addressed. Many causes of unethical conduct have been discussed in Chapters 3 and 4; however, this exercise provides an opportunity to identify other factors that have contributed to the erosion in ethics.

Chapter 4 also presents some of the excuses often given for unethical conduct. Exercise 4 seeks ideas from members about why cooperative employees, directors, and members may engage in unethical behavior. Exercise 5 builds on Exercise 4 by asking reasons (excuses) why cooperative employees, directors, or members engage in unethical behavior.

Exercise 6 is a modified checklist to assess whether participants judge their cooperative to be at ethical risk.

Exercise 7 is designed to help cooperative employees, directors, and members decide whether decisions or actions are ethical.

Exercise 8 involves all cooperative employees, directors, and members in upgrading ethical standards. In addition to calling attention to six action steps, this exercise provides space to record what each cooperative member could do to raise ethical awareness and standards.

Exercise 9 begins the process of developing a code of ethics for each cooperative. It may be useful for readers to review the samples of ethical codes in completing this exercise.

Exercise 10, an article in the *Wall Street Journal*, reports how people respond differently to allegations of illegal and unethical behavior. As a “real life” example, this exercise helps clarify why people feel differently about ethical issues, and highlights the importance of business ethics.

Once these exercises have been completed, consider how a cooperative member should respond to the examples provided. Twenty-five real life examples gleaned from the focus groups provide discussion topics to consider.

The appendix provides additional materials that leaders may find useful in small group discussions. These materials are designed to be made into transparencies for overhead projection. While each set of material could be used in more than one workshop, we have indicated which materials are best suited for a particular workshop.

Background Materials

- Exercise 1. Understanding the Difference Between Morals and Ethics
- Exercise 2. How Have Ethics Changed in the Past 10 Years?
- Exercise 3. Ethics in Cooperatives
- Exercise 4. What Causes Unethical Behavior?
- Exercise 5. Excuses, Excuses, Excuses
- Exercise 6. Is Your Cooperative at Risk?
- Exercise 7. Ethics Checklist
- Exercise 8. Organizational Actions To Improve Actions
- Exercise 9. Toward Developing a Code of Ethics
- Exercise 10. A Case Study of Ethics

Ethical Discussion Topics

Through a series of interviews and focus group meetings with cooperative managers and board members, we discovered many ethical issues must be faced on a daily basis. Some are unique to cooperatives and others are common in the business world. Some are viewed as very important and others as minor issues. Below are a set of ethical scenarios that describes ethical issues in cooperatives. Now that you have read these materials, how would you resolve these issues if faced with these circumstances?

1. There is considerable pressure on the sales staff to achieve sales quotas established for the cooperative. As a recent hire, you worry that not meeting your sales quota will reflect poorly on your performance. As a result, you encourage patron members to buy products they really do not need.
2. To encourage higher attendance and participation at the annual meeting, you use cooperative funds to buy food, beer, and door prizes.
3. You have a portable hog feeder that has been in inventory a long time. For some reason, the feeder has not sold and you would like to move it. The original price was \$895. To sell it, you list a new price of \$1,100, then show a sale price of 50 percent off or \$550.
4. A long-term member of the cooperative, who has been a faithful patron, is reportedly having financial difficulty paying his bills. You know his crop is not very good and want to help him. As harvest gets underway and he brings his crop to the elevator, you note that the first two loads were surprisingly good quality grain. However, the next several loads have been “plugged” with spoiled grain concealed in the bottom of the truck.
5. The nephew of one of the board members who graduated as valedictorian from the local high school is back home after successfully completing his first year of college. The board member asks if there is any way the cooperative can hire his nephew for the summer. You like the young man, but also know that several other equally deserving youth are looking for a summer job.
6. You have served on the board of directors for 27 years through good times and bad. As you contemplate your eventual retirement, you have considered not running for re-election. However, the manager wants you to run for one more term. Your heart is really not in to continuing to serve, although the annual meetings provide a nice wintertime vacation for you and your wife.
7. As president of the board of directors you have discovered that you can buy the same herbicide from another local private competitor at a better price. You feel that you should be loyal to your cooperative, but during these tough times on the farm, a dollar here and a dollar there spells considerable savings. You approach the manager about matching the competitor’s prices. The manager explains that it is not possible to give you a preferential price discount. So you send your son to the competitor to buy the herbicide.
8. As manager of the cooperative, you observe your long-trusted secretary putting computer discs and notepads in a briefcase. There is a strict code of ethics that requires that you fire the secretary on the spot.
9. A friend at work asks whether you would like a take-home copy of the expensive computer software program that you know is protected by copyright. What would you do?
10. As a board member you hear via the grapevine that the manager and an employee, both of whom are married to others, are romantically involved. While you personally view such behavior as immoral, you “mind your own business” and say nothing.

11. To gain market share for the cooperative, you offer a bonus to farmers on the fringe of your trade area to attract additional business although you know that this practice will further jeopardize the viability of an adjacent cooperative.
12. At the coffee shop you and several other cooperative managers huddle and decide what drying charges will be for the coming harvest.
13. In response to a national promotional campaign, you place a large order for a new product and receive two free airplane tickets and motel accommodations for a week's vacation to Hawaii.
14. The cooperative board has requested more detailed information about the profit margins. You fear if members learn of the margin levels, competitors would soon learn of the marketing strategy. Hence, you decide to withhold the information.
15. Your daughter is moving a few miles away into a new apartment. You do not own a pickup truck. Although the cooperative has a strict policy forbidding personal use of equipment and tools, you use the cooperative's pickup to move your daughter into the apartment.
16. You observe an employee playing a computer game on the cooperative's computer during work hours.
17. A loyal patron has had a major illness in the family and is not able to make his payment for seed and fertilizer. You have every reason to believe that the patron is a good credit risk although it is against the cooperative policy to extend credit beyond 30 days.
18. Your cooperative has the opportunity to sign a long-term business agreement with a private company that will be mutually advantageous. This agreement will enable your company to expand its market share and will return handsome profits to both parties.
19. In response to perceived problems in the timeliness of fertilizer application during spring planting, your cooperative purchased a new applicator truck which has turned out to be a disastrous investment. Suddenly, everyone has purchased new equipment and application charges have been very competitive. Getting farmers to accept your new service has been difficult and everything else that could have gone wrong. You are only 1 year away from retirement and are pretty sure that no one will discover this bad decision until after you retire.
20. You just received a phone call from an informant that a neighboring cooperative has an extremely high price posted for No. 2 yellow corn. Either they have made a dreadful mistake or they have really scored big on filling a contract. At any rate, you decide to have your informant sell 500,000 bushels for you to the competing cooperative. A few days later you learn that they had made a mistake on posting the price and they stand to lose \$50,000 on your contract.
21. In response to less government payments on storing corn, slim margins, and the need to boost revenues, you have encouraged the board to offer contract feeding of hogs. This way the cooperative will boost feed sales and the profits from hog feeding will improve the overall financial position of the cooperative.
22. The legislature has approved cooperatives owning livestock. Several cooperative members have expressed interest in contract feeding while others feel that this new venture may contribute to more hogs on the market and reduce their own profits.
23. Your nephew, who works in a large brokerage house, has given you (the cooperative manager) a hot tip about a potential stock split with a major private competitor.
24. The manager of the cooperative who has been in this role for 25 years, has announced his intention to retire in the next 2 years. As part of the coming transition, the manager would like to hire an assistant who he could train as his successor. The board agrees with the transition plan except that they will reduce his salary by the amount that is paid to the assistant manager.
25. It has been brought to the attention of the board and manager that seemingly the most unethical behavior is demonstrated by younger, well-educated, college graduates who are intent on "showing the community how to get ahead." What should be done?

26. The manager has just learned of a trade secret. If he acts on this tip, the cooperative stands to gain considerably. However, he also knows that if he shares this information with the board, some of them will likely share the information with others in the community including the manager of the cooperative in the adjacent town since two of his board members are also members in that cooperative. In order to keep the information secret, he decides not to share the information with the board although there is some reason to believe that board approval might be necessary.

Summary

As you discuss these examples, you probably heard many different perspectives and solutions. It may have surprised you to have heard the comment, "Well, it depends on the situation." Listening to the arguments presented by others reflects the spectrum of ethicality.

Every ethical decision has its own peculiar and unique situation and context. This leads many to conclude that we live in a period of ethical ambiguity or what has been termed situational ethics. Business decisions in our pluralistic society require thoughtful and time-consuming responses to most ethical questions.

For example, where do we draw the line about stealing? Stealing is illegal, but often defined in terms of value of the stolen item. Yet, from an ethical decision, stealing a paper clip or rubber band is no different than stealing an object worth much more in value. If we recognize the relativity in ethics, perhaps we will be better able to make ethical decisions.

Take the example of the new salesperson who, fearing losing his job if he did not meet sales quota, sells products to patrons who really didn't need them. Can this behavior be excused or justified? The salesperson is caught between the expectations of the merchandising manager, the board, and the individual members. Is the salesperson wrong to do all he can to protect his job and family?

Some may argue about the manager using cooperative funds to provide food, beer, and door prizes for the annual meeting. In some communities, buying beer with cooperative funds is wrong, but food and door prizes are legitimate expenses. On the other hand, using cooperative funds to buy food or prizes, including alcoholic beverages, may be acceptable. Again, relatively mundane decisions often involve ethical decisions and reflect community norms, values, and cus-

toms. In some cases, alcohol would not be a problem; in other cases, it may violate the norms and customs within the membership.

An old Chinese proverb says, "If you don't know where you are going, it doesn't make any difference which road you take." If applied to decisionmaking in cooperatives, unless you know the mission of the cooperative and are committed to its ideals, ethics may be of secondary importance. Too often we have heard that decisions must be based upon the bottom line—is it profitable, does it make economic sense, will it improve the financial status of the cooperative? Yet, many decisions only indirectly affect the bottom line and sometimes the relationship is not directly tied to profits.

For example, the cooperative manager allows a basketball hoop to be placed in the repair shop. The insurance consultant would likely conclude that it exposes the cooperative to a potential lawsuit if an employee gets injured while shooting baskets with the boys. The industrial engineer might conclude that it encourages employees to goof off during work hours. Another expert might conclude that it would be better for the employees to shoot baskets at the fitness center. The manager, who has permitted the basketball hoop, may likely understand that employees shooting baskets in the repair shop allows them to blow off some steam after some frustrations, and that a cooperative runs best when employees have team spirit. Being a team both on and off the court leads to a successful cooperative.

Without understanding the importance of basketball in the local community, appreciating the fact that there is no recreational center in the community, and other such variables, this decision would not appear to be related to the financial success of the cooperative. However, retaining good employees by allowing them to use the facility for recreation (presumably during nonwork hours) was a conscious ethical decision.

Each example points out the problems we encounter when there are no rules about what you should do. There can't be a rule for every decision, but a code of ethics would help establish general principles and who should decide. Depending upon whether you place emphasis upon character, compliance, or consequence, ethicality will, in large measure, determine how you would resolve each of the preceding ethical problems.

While each of us has an idea about what we would do, there is no clear answer. In most cases, there is no single best solution. Only through careful consideration and deliberation can cooperatives demonstrate their uniqueness.

Ethics Checklist

1. Does the contemplated action violate law?
2. Is the contemplated action contrary to widely accepted moral obligations such as duties of fidelity, duties of gratitude, duties of justice, duties to obey the law, or duties to provide benefits to members?
3. Does the proposed action violate any other special obligations which stem from tenets of cooperative organization?
4. Is the intent of the contemplated action harmful?
5. Are there any major damages to people or organizations that are likely to result from the contemplated action?
6. Is there a satisfactory alternative action which produces equal or greater benefits to the parties affected than the proposed action?
7. Does the contemplated action infringe upon the inalienable rights of the consumer (right to information, to be heard, to choose and to redress)?
8. Does the proposed action leave another person or group less well off? Is this person or group already a member of a relatively underprivileged class?

Source: Laczniak and Murphy, 1991

Gary Edwards' 7 Steps To Managing Ethical Environments

1. Leadership at the top and at all levels of management.
2. Clear standards of conduct.
3. Communication of values and standards.
4. Effective compliance monitoring.
5. Ethics ombudsman.
6. Proper goal setting and proper incentives.
7. A continuing commitment.

Source: Edwards, 1993

The Golden Rule

Act in a way that you would expect others to act toward you.

The Professional Ethic

Take only actions which would be viewed as proper by an objective panel of your professional colleagues.

Kant's Categorical Imperative

Act in such a way that the action taken under the circumstances could be a universal law of behavior for everyone facing the same circumstances.

The TV Test

A manager should always ask, "Would I feel comfortable explaining this action on television to the general public?"

Source: Laczniak and Murphy, 1991

Cooke's 14 Danger Signs

1. If a cooperative normally emphasizes short-term revenues above long-term considerations, it is creating a climate for unethical behavior. Complex ethical dilemmas require objective assessment that is not continually constrained by a myopic focus on next quarter's earnings. Solutions require long-range commitments.
2. Any cooperative that routinely ignores or violates internal or professional codes of ethics is at risk. The risk is diminished if the firm integrates these professional standards within the corporate culture and regularly monitors compliance and applies appropriate sanctions.
3. Any cooperative that always looks for simple solutions to ethical problems and is satisfied with "quick fixes" is at ethical risk. The majority of situations are ambiguous. Complexity requires a thoughtful analysis.
4. If a cooperative is unwilling to take an ethical stand when there is a financial cost to the decision, it encourages ethical shortcuts. Any short-term gain is usually overshadowed by long-term financial loss that follows the disclosure of unethical behavior.
5. Any cooperative that creates an internal environment that either discourages ethical behavior or encourages unethical behavior is at risk. Too many firms ignore the consequences of the implicit messages sent by policy decisions that either directly or indirectly discourage ethical behavior. Internal environment or corporate culture is important in shaping values that determine ethical responses.
6. When a cooperative usually sends ethical problems to the legal department, it is at risk. Ethics is not simply a matter of compliance with existing laws and regulations.
7. Any cooperative that looks at ethics solely as a public relations tool to enhance its image is at ethical risk. A firm's ethical reputation is not determined by a press release.
8. Any cooperative that treats its employees differently than its customers encourages unethical behavior. It reflects an arrogance that creates distrust and hostility within the organization. Such distrust and hostility makes it difficult to equitably resolve ethical dilemmas that may originate outside of the firm.
9. Any cooperative that is unfair or arbitrary in its performance appraisal standards is at risk. A lack of standardization leads to the kind of favoritism and cronyism that tears at the social fabric of the organization and creates a serious morale problem. When merit is replaced by political influence, the ensuing corporate climate encourages unethical behavior.
10. Any cooperative that has no procedures or policies for handling ethical problems is at risk.
11. Any cooperative that provides no mechanism for internal whistleblowing is at risk. A firm must provide ways in which potential problems can be brought to the attention of upper management and other interested parties, otherwise it appears that unethical behavior is tolerated, if not condoned.
12. Any cooperative that lacks clear lines of communication with the organization encourages unethical behavior. The problems get out of hand before most managers realize there is a problem. Any attempts to cover it up usually backfire.
13. Any cooperative that is only sensitive to the needs and demands of the shareholders is at ethical risk. Other individuals and groups have a stake in the actions of the firm should not be ignored.
14. Any cooperative that encourages people to leave their personal ethical values at the office door is at risk. Whenever there is a sharp line drawn between personal values and work values, ethics are at risk. Many cases of corporate impropriety could be avoided if people would ask themselves if the values conveyed by the firm were consistent with their personal ethical beliefs.

Source: Cooke, 1991

Six Organizational Actions To Improve Ethics

1. The organization must make ethics an integral part of management decisions. (ethics management)
2. The organization must distinguish the ethical and moral dimensions of day-to-day activities within the organization and decide which dimensions (and activities) take precedence. (issue identification)
3. Organizational values should be consistent with the larger culture. (values clarification)
4. It should be understood that in complex decision-making, there is usually more than one ethical choice. (decisionmaking)
5. Organizational and cultural supports must be identified. Ethical judgments should not be ad hoc; they must be rooted in substantive principles and applied consistently. (organizational support)
6. Decisions imply and require commitment by all stakeholders in the organization. (commitment)

Source: Von der Embse, **1984**

Commitment-Building Process

1. Quality products and services build a utilitarian form of commitment. A cost/benefit analysis can convince members that it is in their interest to be committed to the organization. However, this is the most fragile form of commitment, from which members defect in a crisis.
2. Investing money or time in the organization results in psychological commitment. The need to sacrifice time or invest money to obtain membership in an organization reinforces the value of belonging. Commitment protects and enhances investment.
3. Receiving a helping hand frequently results in feeling indebted to the organization. If it sticks by its members in time of need, it's easier for them to feel that they should be loyal.
4. Involvement through an elected position in cooperatives or through participation in young cooperator programs develops stronger loyalties. The process of involvement in the organization strengthens commitment. A second form of involvement is to act as advisors to directors.
5. Cooperative education enables people to learn about the philosophy of cooperation and values underlying it, and relate them to their own ideological values. The process forces people to accept or reject the philosophy of cooperation. In acceptance, they increase their ideological commitment to the organization. But this process must be continuous. Material should emphasize cooperative games where everybody wins, rather than

intensely competitive games which teach students to lose and consider themselves failures.

- 6 Marketing strategies have a direct relationship to how members evaluate the organization and whether they develop commitment.

Source: Craig, **1982-83**

Codes of Ethics

(Samples)

1. Adherence to the laws of the U.S. is minimum basis for measuring ethical and legal conduct.
2. Company policy does not sanction the acceptance of gifts except for items of nominal value. This prohibition does not preclude exchange of ordinary hospitality such as lunch or dinner.
3. Individual self-interest should never be permitted to conflict with or take precedence over the interest of the company. Be alert to all potential conflicts, direct and indirect, and resolve all such perceived conflicts in the company's favor. If a conflict even appears to be present, it should be disclosed immediately to the individuals' superior or the board.
4. Honesty and integrity are essential to maintenance of the respected name enjoyed by the company. Establishment and preservation of such respect is a factor in every decision and activity.
5. If profitability is incompatible with ethical behavior in a business, (our organization) will not engage in that activity. Emphasis on employee safety, product quality, and equitable dealings with customers and suppliers relates to both economics and ethics.
6. Failure to properly consider the rightness of our actions clearly would be coercive to the individual integrity of (our organization).
7. Perjury or any illegal act ostensibly taken to "protect" the company is wrong. A sale made because of deception is wrong. A production quota achieved through questionable means or figures is wrong.
8. We pledge ourselves to maintain complete loyalty to the cooperative that elects us or employs us and aggressively pursue its objectives; hold inviolate the confidential relationship between the individual members of the cooperative and ourselves and the confidential information entrusted to use thorough the cooperative office; serve all members of our cooperative impartially, and provide no special privilege to any individual members, nor accept special personal compensation from an individual members, except with the knowledge and consent of all other members; neither engage in, nor countenance, any exploitation of our cooperative or profession; recognize and discharge our responsibility and that of our cooperative to uphold all laws and regulations relating to our cooperative activities; exercise and insist on sound business principles in the conduct of the affairs of our cooperative; use only legal and ethical means if we should seek to influence legislation or regulation; issue no false or misleading statements to the members or public; refrain from the dissemination of any malicious information concerning other cooperatives or competitors; accept our responsibility for cooperating in every reasonable and proper way with other cooperatives; use every opportunity to improve public understanding of cooperative principles; and maintain high standards of personal conduct.

Source: Iowa Institute of cooperatives, 1992; Von der Embse, 1984; AGRI Industries, 1983.

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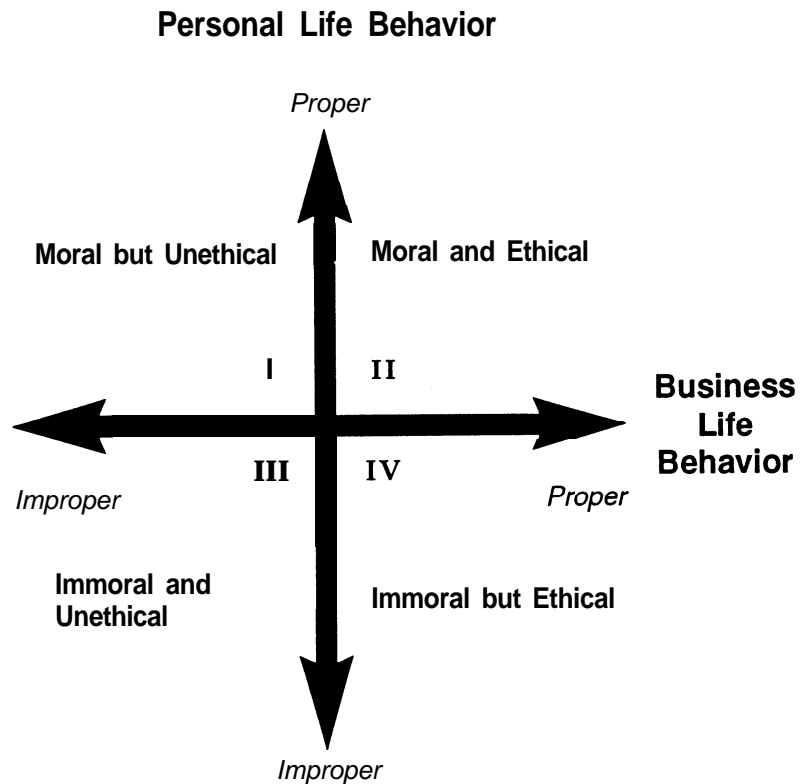
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Exercise 1

Understanding the Difference Between Morals and Ethics



Based upon this model, give an example for each type of behavior you have witnessed in your community.

I. Moral, but Unethical

II. Moral and Ethical

III. Immoral and Unethical

IV. Immoral, but Ethical

Exercise 2

How Have Ethics Changed in the Past 10 Years?

1. Among farmers?
2. Among people in your community?
3. Among all Americans?
4. Among youth and young adults?
5. What has caused these changes?

Why might a manager behave unethically? (e.g., pressure to generate earnings)

Why might an employee behave unethically? (e.g., poor training)

Why might a member behave unethically? (e.g., economic pressure)

I am a (check one):

- Board of Director
- Co-op Manager
- Co-op Employee
- Co-op Member

Exercise 3

Ethics in Cooperatives

Many cooperative members are concerned with what they see as declining ethical standards and behaviors within the cooperative system. Give examples of the types of unethical behavior you are aware of (have witnessed or heard rumored) occurring within cooperatives or among its members today. (You need not identify responsible individuals; simply describe types of unethical behaviors.)

Director Perpetrated (e.g., asking for special treatment)

Manager Perpetrated (e.g., hiring family or friends)

Employee Perpetrated (e.g., borrowing co-op equipment)

Member Perpetrated (e.g., plugging grain)

I am a (check one): Board of Director

~~Ma~~ Co-op g e r

Co-op Employee

~~Co-op~~ Member

Exercise 4

What Causes Unethical Behavior?

What causes cooperative members to behave unethically? Confusion? Outside pressure? Lack of personal morals? Give examples of reasons you think co-op members behave unethically.

Why might a director behave unethically? (e.g., fear of being seen as ignorant)

Why might a manager behave unethically? (e.g., pressure to generate earnings)

Why might an employee behave unethically? (e.g., poor training)

Why might a member behave unethically? (e.g., economic pressure)

I am a (check one): Board of Director

_____ Co-op Manager

Co-op Employee

Member

Exercise 5

Excuses, Excuses, Excuses

There are many reasons (or excuses) why people behave unethically. Here are a few common ones.

- It was necessary (the ends justify the means).
- It was legal.
- I did it for your benefit.
- I was only fighting “fire with fire.”
- It didn’t hurt anyone.
- Everyone else is doing it.
- I did not gain personally.
- I deserved it.

What are some of the common excuses that you hear from those trying to explain their unethical behavior?

Exercise 6

Is Your Cooperative at Risk?

	This describes my cooperative		
	Never	Sometimes	Always
1. If a cooperative normally emphasizes short-term revenues above long-term considerations, it is creating a climate for unethical behavior.			
2. A cooperative that routinely ignores or violates internal or professional codes of ethics is at risk.			
3. A cooperative that always looks for simple solutions to ethical problems and is satisfied with “quick fixes” is at ethical risk.	1	2	3
4. If a cooperative is unwilling to take an ethical stand when there is a financial cost to the decision, it encourages ethical shortcuts.	1	2	3
5. A cooperative that creates an internal environment that either discourages ethical behavior or encourages unethical behavior is at risk.	1	2	3
6. When a cooperative usually sends ethical problems to the legal department, it is at risk.	1	2	3
7. Any cooperative that looks at ethics solely as a public relations tool to enhance its image is at ethical risk.	1	2	3
8. Any cooperative that treats its employees differently than its customers encourages unethical behavior.	1	2	3
9. Any cooperative that is unfair or arbitrary in its performance appraisal standards is at risk.	1	2	3
10. Any cooperative that has no procedures or policies for handling ethical problems is at risk.	1	2	3
11. Any cooperative that provides no mechanism for internal whistleblowing is at risk.	1	2	3

Exercise 6

continued

Is Your Cooperative at Risk?

	This describes my cooperative		
	Never	Sometimes	Always
12. Any cooperative that lacks clear lines of communication with the organization encourages unethical behavior.	1	2	3
13. Any cooperative that is only sensitive to the needs and demands of the shareholders is at ethical risk.	1	2	3
14. Any cooperative that encourages people to leave their personal ethical values at the office door is at risk.	1		
<hr/> Total			

Source: Modified from Cooke's (1991) 14 Danger Signs

Exercise 7

Ethics Checklist

When *contemplating actions*, consider this “*Ethics Checklist*. ”

	No	Yes
1. Does the contemplated action violate law?	1	2
2. Is the contemplated action contrary to widely accepted moral obligations such as duties of fidelity, gratitude, justice, nonmaleficence, or beneficence?	1	2
3. Does the proposed action violate any other special obligations which stem from tenets of cooperative organization?	1	2
4. Is the intent of the contemplated action harmful?	1	2
5. Are there any major damages to people or organizations that are likely to result from the contemplated action?	1	2
6. Is there a satisfactory alternative action which produces equal or greater benefits to the parties affected than the proposed action?	1	2
7. Does the contemplated action infringe upon the inalienable rights of the consumer (right to information, to be heard, to choose, and to redress)?	1	2
8. Does the proposed action leave another person or group less well off? Is this person or group already a member of a relatively under privileged class?	1	2

Source: Laczniak and Murphy, **1991**

Exercise 8

Six Organizational Actions To Improve Ethics

Consider what cooperative members and employees can do to improve ethics. What should each of the following do or be responsible for in your cooperative?

1. The organization must make ethics an integral part of management decisions.
 - (ethics management)
2. The organization must distinguish the ethical and moral dimensions of day-to-day activities within the organization and decide which dimensions (and activities) take precedence.
 - (issue identification)
3. Organizational values should be consistent with the larger culture.
 - values clarification
4. It should be understood that in complex decisionmaking, there is usually more than one ethical choice.
 - (decisionmaking)
5. Organizational and cultural supports must be identified. Ethical judgments should not be ad hoc; they must be rooted in substantive principles and applied consistently.
 - (organizational support)
6. Decisions imply and require commitment by all stakeholders in the organization.
 - (commitment)

What Is the Role of Each player in Improving Co-op Ethics?

Board Member

Manager

Employee

Member

Source: Von der Embse, **1984**

Exercise 9

Toward Developing a Code of Ethics

What critical issues should be addressed in a code of ethics for your cooperative?

What key principles would you like to see strengthened in your cooperative?

Compare your responses with the ethics checklist and the samples provided.

Exercise 10

A Case Study of Ethics

Please read the attached article from the July 13, 1995 Wall Street Journal and answer the following questions. In this exercise, we are neither attempting to determine the guilt or innocence of either party nor establishing the truth or falsity of any of the claims, but rather providing a good case study to discuss ethics.

1.
 - a. What do you perceive as the ethical issues in the article? What are the ethical issues surrounding the allegations concerning ADM?

 - b. What about the ethical issues surrounding Mr. Whitacre's behavior?

 - c. What ethical issues are raised in the community response?

2. What accounts for the differing ethical positions presented in this article?

3. What alternative actions might have been followed to avoid this situation?

4. How do you feel about the statement, "He is not an upright citizen or he wouldn't be ratting on his boss. If you're being paid by an employer, you owe allegiance until you don't want to work there anymore. Then you leave."

You Dirty Rat, Says Decatur, Ill., of Mole at Archer-Daniels People Think Mark Whitacre Betrayed Them and Ask Why He Turned to FBI

by Carol Quintanilla and Anna D. Wilde
Staff Reporters of The Wall Street Journal

DECATUR, Ill. — How could Mark E. Whitacre do such a thing?

Since Monday morning, that has been the question raised again and again in the taverns, churches and living rooms of this Midwestern town of 84,000.

Mr. Whitacre is the 38-year-old Archer-Daniels-Midland Co. executive and model citizen who, this newspaper disclosed Monday, has been a secret FBI informant for the past three years. The president of Archer-Daniels' BioProducts division secretly taped conversations of his colleagues as part of a criminal investigation of the grain-processing giant and others. No charges have been filed.

The news has jolted this Bible Belt community, where the company employs one of every 35 residents. At radio station WSOY-AM, the Archer-Daniels situation is all that callers want to talk about. "I'm surprised and shocked," says one woman caller from Decatur, "because I take a lot of pride in ADM." Indeed, the mood here appears to have turned decidedly against Mr. Whitacre, a Rotary Club speaker and new Millikin University trustee, known for adopting troubled kids.

And there isn't much forgiveness, even at church. "The biggest feeling here right now is a sense of being violated," say the Rev. Randy DeJaynes, pastor of Christ Lutheran Church. "It's as though I became a good friend of your family, came over to your house all the time, then started rifling through your drawers. It's not an intruder though. It's someone who's trusted — by a company and by an entire community."

On the Table

Mr. Whitacre was the big topic at Christ Lutheran's monthly council meeting Tuesday night, overshadowing such issues as the church's plans to buy an air-conditioning system and hold a garage sale. "Why didn't he just quit?" asks council member Bob Dobrinick. "That's what I would have done. I'm not about to be a spy."

Says another of the seven board mem-

bers: The idea that the feds spy on the community "frightens me. They're about as underhanded as anybody."

At Nick's Auto Body, co-owner Nick Vanderlaan says Mr. Whitacre "is not an upright citizen or he wouldn't be ratting on his boss. If you're being paid by an employer, you owe allegiance until you don't want to work there anymore. Then, you leave."

And in this town, where Archer-Daniels is king, many citizens would rather judge Mr. Whitacre a rat than contemplate that the company might be a price-fixer. "ADM has a reservoir of goodwill and respect," says Ron Diamond, a retired Caterpillar, Inc. executive. "I think people want to give them the benefit of the doubt."

One reason is that Archer-Daniels' largess reaches far and wide. The company has sponsored everything from the Decatur Municipal Band, which plays Monday nights in Central Park, to the national champion Decatur Pride Fast-Pitch Softball Team.

A smudge on Archer-Daniels' reputation could hardly come at a worse time in this community, where Abraham Lincoln practiced law and R.R. Montgomery invented the fly swatter. Workers at Decatur's other major employers — Tate & Lyle PLC's A.E. Staley Manufacturing Co. subsidiary and Caterpillar — have been locked out or on strike for as long as two years.

All that is left, says Merrill Lynch broker Ray Schmitt, is Archer-Daniels. "They're kind of our baby," he says. "They're like the angel around here."

That explains why the sharp drop in the company's stock — share prices have slid 15% since Friday — has become a local tragedy in more than one way. Many residents are shareholders and have been flocking to brokerage houses seeking advice about their investment nest eggs. "I've done a lot of hand-holding — literally," Mr. Schmitt says.

Neighboring Defense

Jack Wyse, who owns 1,050 shares, says he decided to hang on to them. But the owner of Jimmy Ryan's Conference Room, a local bar-and-grill, is angry at Mr. Whitacre. "He betrayed ADM," he says. "How in the world could a man do what he did to that company?"

The mayor of Moweaqua, Ill., George Forston, may have an answer. He says that Mr. Whitacre, who lives in the town located 17 miles from Decatur, "isn't a person who feels he or anyone else should be above the law. If there's anything the town can provide, we'll do it."

Still, even Mr. Whitacre's close friends admit they can't fathom why he did what he did. "I'm dumbfounded," says Curtis McCray, president of Millikin University. He says he has talked to Mr. Whitacre's wife, Ginger, but hasn't spoken with his university trustee for an explanation. He is certain, though, that Mr. Whitacre had a good reason.

Indeed, in tiny Moweaqua (pop. 1,922), Mr. Whitacre is still considered a nice guy. Residents describe Mr. Whitacre as a friendly man who waves at passersby from the lawn of his palatial estate—once owned by Archer-Daniels Chairman Dwayne O. Andreas.

Leading Citizens

The Whitacres have earned their role as leading citizens, residents say. Mr. Whitacre and his wife have given generous donations to town fund drives for local cancer patients. They often can be spotted eating breakfast at Ye Olde Towne Dining Room on Main Street. And Mrs. Whitacre shops at the local supermarket.

Some now worry about Mr. Whitacre's career. "He's probably done the right thing," says Terry Flatt, a vice president of Ayars State Bank, "but I think it'll hurt him in the future."

Adds 70-year-old Ed Paine, a retiree: "I don't know if I would have had the guts. Mr. Whitacre's not furthering his career much, but he's certainly a man of his convictions."