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UNIT 1

Business Ethics

Quotation 1:

“Goodness is the only investment that never fails.”

—Henry David Thoreau

Quotation 2:

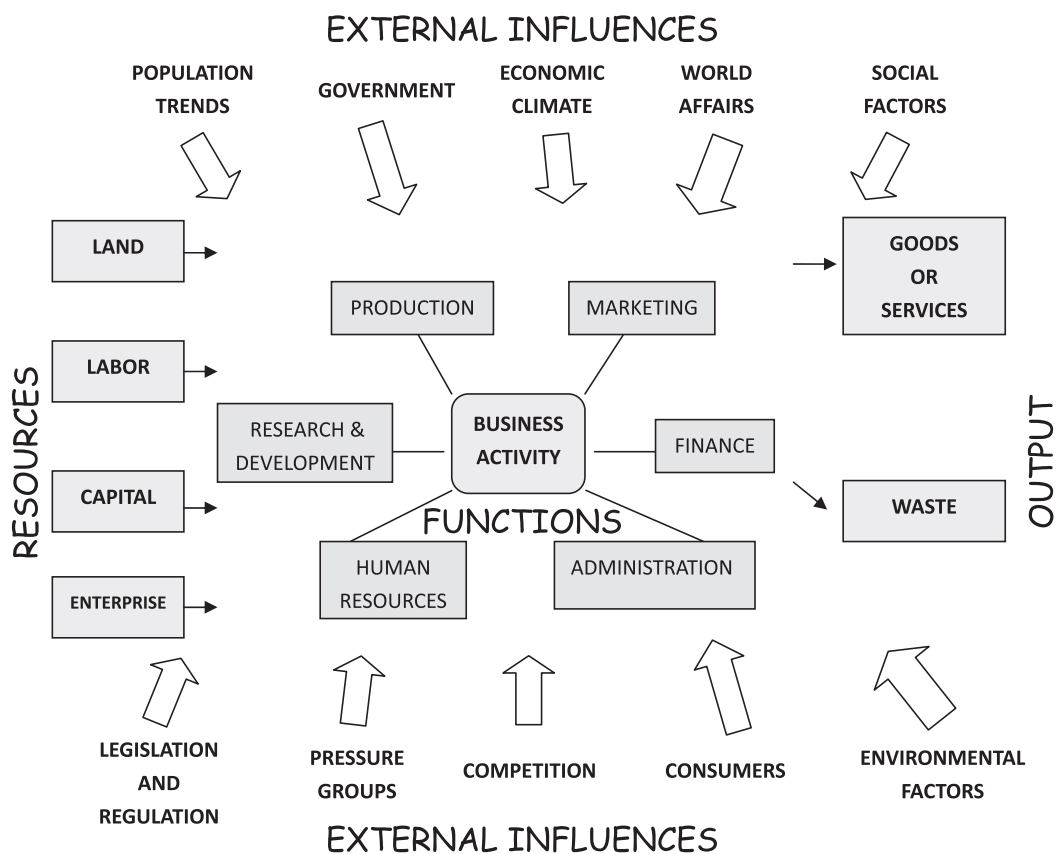
“If ethics are poor at the top, that behavior is copied down through the organization.”

—Robert Noyce

Lead-in

1. Discussion

- 1) What is ethics? Draw up your personal code of ethics, and discuss your ideas with your partner.
- 2) Look at the following figure on the nature of business activities, and discuss with your partner the various aspects of ethical decisions that businesses need to make.



2. A Mini Case

In 1998, Coca-Cola set up a bottling plant in Plachimada in the southern state of Kerala, India. Since then, local villagers have complained about the fall in the amount of water available to them and have blamed the fall in supplies on Coca-Cola which, they claim, uses up to a million liters per day at the plant. Coca-Cola claims that the shortage of water is due to the lack of rain in the region. Coca-Cola even sends round tankers of water to the region to help the local community. Local farmers are claiming that their livelihood has been destroyed since the building of the plant and that the number of people working on the land has dropped considerably because they cannot survive.

Following the cleaning of the bottles, waste sludge is produced. Coca-Cola has been disposing of the sludge on the land of local farmers, claiming it was a useful fertilizer. Following a BBC program, samples of the sludge were analyzed by scientists at the University of Exeter in the southwest of England and found to contain toxic chemicals, including lead and cadmium, both of which can be harmful to humans. It suggested that there was little or no benefit of the sludge as a fertilizer. Recent tests by the local state laboratories find that the levels of toxic chemicals are within safety levels but that it should not be used as a fertilizer.

In a separate development, sales of Coca-Cola have been hit by suggestions that its drinks produced in India contained higher levels of pesticide residues than was healthy! A large number of bodies have joined in the local community's campaign demanding the plant be closed down and that tests be carried out on Coca-Cola to assess its safety. A lawsuit to this effect was thrown out in August, which prompted Coca-Cola to issue an angry comment claiming that the reports were scurrilous, unnecessarily scared large numbers of Coca-Cola's customers, and put thousands of jobs in its plants throughout India at risk. Coca-Cola claims to employ in excess of 5,000 people in the country, not to mention the many thousands that are linked in some way to the product.

Questions:

- 1) What is the concern of the local community?
- 2) What is the claim held by Coca-Cola about its waste sludge?
- 3) What is Coca-Cola's response toward the BBC program report? What do you think of it?

Only the Ethical Survive

Leadership in fairness and honesty makes good business sense.

Notes:

1. ipso facto: by the fact itself
根据事实本身

2. sustenance: a way of supporting yourself, for example by earning money
生计

Many business executives think the culture of their organization is what they want it to be. They conduct workshops to define values and processes; they display missions and goals on posters and in manuals; they conduct orientation sessions for new hires that describe what the company stands for. I have even seen value statements printed on the backs of business cards as reminders to employees.

In reality, a company's culture is defined by what the top executives actually do. Employees model—that is, they emulate their boss' behavior. They do what the boss does because they get paid by the boss, recognized by the boss, and, eventually, promoted by the boss. That makes the top leader, **ipso facto**¹, ultimately responsible for the culture of his/her organization—including the ethical culture.

Of course, individual employees are responsible for their own behavior and are driven by their own internal sets of values and principles, by their own personal character, and their courage to live by these values and principles. But, when **sustenance**², stature, and power are at stake, people will do what they have to do to succeed. All too few have the courage to put themselves and their families at risk based on principle, especially when the consequences seem small, remote, or undetectable.

To encourage employees to act on principle, an organization must be led by a chief executive who actually makes decisions not only within business and legal boundaries but also within ethical boundaries. In other words, the staff must see that the boss is willing to accept ethical behavior as a constraint or a cost. They have to see employees recognized and promoted who have modeled

ethical behavior even at a short-term cost to the bottom line. And they have to know that those who have behaved unethically will be fired or otherwise appropriately held accountable for their behavior. This must be applied most severely to the highest level executives. While top managers are sometimes protected by their peers or forgiven for unethical conduct on the grounds that their departure would be too disruptive, the fact is that the company leadership should be expected to adhere to the highest standards.

Good Ethics Is Good Business

Now, all of this probably sounds like good ethics costs money. My belief is that ethical leadership actually saves money. By way of **analogy**³, consider the role of quality in business. For most of American industry prior to the 1970s, quality products and services were presumed to be more expensive to produce. In a great lesson taught to American industry by the Japanese (who, ironically, learned it from an American statistician, **W. Edwards Deming**⁴), Japanese auto, consumer electronics, and semiconductor companies demonstrated the advantage of doing it right the first time. This proved far less expensive than **shoddy**⁵ construction with its attendant costs in re-work, huge inspection infrastructure, and scrap materials—not to mention loss of customer loyalty.

I believe the same paradigm applies in the case of ethics. Poor ethical performance can lead to financial losses. Consider the following situations:

Are profits too high and exploiting the customer? The first principle of macroeconomics is replayed over and over again as naive leaders think they can beat that economic law. The principle states that when a company makes an extraordinary rate of return, well in excess of normal, competitors come in and correct the imbalance. The competitors actually drive prices down, resulting in subnormal profit, and even losses, for an extended period until the least efficient are removed from the market. Unless the original **gouger**⁶ is also the most efficient—an unlikely case—then the gouger suffers a far greater cost (losses or even extinction) than it would have if it had operated at the normal rate of return in the first place.

3. analogy: a comparison between two situations, processes, etc. that seem similar, or the process of making this comparison
类比, 类推

4. W. Edwards Deming: an American statistician, educator, and consultant who advocated quality-control methods in industrial production
威廉·爱德华兹·戴明

5. shoddy: made or done cheaply or carelessly
劣质的, 粗制滥造的

6. gouger: a person who forces others to pay an unfairly high price for his/her goods or services
漫天要价者

7. police: to control a particular activity or industry by making sure that people follow the correct rules for what they do
控制, 监督

8. Pentium I: 英特尔公司生产的奔腾一代处理器

9. floating point rounding flaw: 英特尔公司产品曾出现的浮点运算精度问题

10. ubiquitous: seeming to be everywhere
似乎无处不在的

11. erstwhile: former or in the past
以前的, 过去的

12. hand-to-hand combat: 肉搏战

Is the company exploiting the labor force? From line workers to airline pilots, exploited employees may try to correct the situation through unions, public outcry, even riots and often at far greater expense than doing it right the first time. Consider the experience of Kathie Lee Gifford. This popular TV personality and CEO of her own clothing line came under fire for obtaining her products from offshore manufacturers who paid sub-living wages. Her loss of goodwill with the American public and the resulting actions she had to take to remedy the problem cost much more than the company would have paid to **police**⁷ the contractors from the outset to ensure they weren't exploiting their workforce.

Has the company ignored a product defect? The examples of shortsightedness in this area abound. Remember the **Pentium I**⁸ “**floating point rounding flaw**⁹”? Initial denial of the problem created both hard and soft losses for Intel, but finally doing the right thing made the problem go away at a relatively modest cost. In actuality, very few Pentiums were returned.

How about the tobacco industry's denials that nicotine posed a health risk? The jury is still out—but if politics doesn't override the ethical conclusions, the penalty costs levied by the courts could wipe out the retained earnings of the industry.

In contrast, look at how the producers of Tylenol, using a good ethical process, turned a negative to a positive in one of the early cases of product tampering. Eschewing the short-term fix, they recalled all products, not just those in the region where the poisoning had occurred, and then invented the now **ubiquitous**¹⁰ tamper-proof seal. They went on to gain greater market share and customer loyalty as a result.

Does concern for the bottom line always trump ethical considerations? Here, the case of MiniScribe provides an excellent cautionary tale. An **erstwhile**¹¹ disk drive maker of the late 1980s, MiniScribe was embroiled in “**hand-to-hand combat**¹²” with tough competitors in the high-growth, high-stakes disk drive market for PCs. The company was executing poorly, and the stock was depressed.

To deal with the situation, investors brought in legendary venture

capitalist and turnaround expert Q. T. Wiles to be the CEO. Renowned for effectively focusing the organization on just five key objectives each quarter and being relentless about achieving them, Wiles encouraged employees to do everything possible to carry out their goals.

At first, the strategy led to improved performance, sales growth, and market-share gains. But as pressure increased to achieve the objectives at any cost, the employees began to flirt with unsound practices. They set up warehouses near customers and reported shipments to them as revenue—a high-risk practice at best and a violation of generally accepted accounting procedures at worst. Eventually, they shipped bricks in boxes marked “disk drives” to those warehouses because the products weren’t ready.

The end result was bankruptcy for the company and the conviction of the CEO in federal court on grounds of fraud. Was Q. T. Wiles always a **crook**¹³? I doubt it. Rather, Wiles failed to attach ethical boundary conditions to his relentless demands that employees meet the five key objectives no matter what!

Employee Buy-in¹⁴

It is, of course, important for employees to stand behind their leader’s goals and visions, and ethical leadership can help foster that commitment. While modern participative management theory goes a long way toward making sure goals and visions are aligned and supported by the members of an organization, it is not enough. There are times when sudden change thrusts an organization into uncertainty. In the case of industry, the appearance of a new competitor, a sudden technology breakthrough, or a rapid collapse in market demand may trigger the shift.

These sudden periods of uncertainty require the troops to trust their leaders absolutely in order to stay together as a team and focus on the objectives. An ethical leader will command that trust because he/she builds it daily through actions that demonstrate concern for everyone. Ethical leaders will have a record in which outcomes were fair, rights were protected, and pain and gain were shared among the stakeholders for the common good.

13. crook: a dishonest person or a criminal
骗子, 罪犯

14. buy-in: agreement with, or acceptance of a policy or suggestion
认可, 认同

15. mutiny: a refusal by a group to accept someone's authority, especially a group of soldiers or sailors

(尤指士兵或水手的)
反叛

16. cover-up: an attempt to prevent the public from discovering the truth about something
掩饰, 隐瞒

Without that trust, followers take matters into their own hands. On a ship, there is **mutiny**¹⁵; in Silicon Valley, workers quit and go to another company. Without trust in the leader, the instinct for survival takes over and the cost to the organization in misexecution, chaos, and rebuilding is huge.

If trust and good ethics are important today, they will be even more crucial in the future. Because of the phenomena such as the emergence of a global perspective in all of our institutions and because of the ubiquitous, instant, and anonymous communication afforded by the Internet, unethical excesses can be easily exposed and disseminated—at little or no cost. No longer can leaders prosper at the expense of the common good while they hide behind the barriers of language, geography, or **cover-up**¹⁶ tactics. In this interconnected world, only ethical leaders and companies will survive.

Exercises

I. Reading Comprehension

1. Determine whether the following statements are true or false. Write a T for true, an F for false, and an NG for not given.

- _____ 1) According to the author, an organization's culture is defined by its employees.
- _____ 2) There are three boundaries that management needs to consider: business boundary, legal boundary, and ethical boundary.
- _____ 3) Many leaders are worried about the high cost of ethical behavior.
- _____ 4) The Japanese business practices are mentioned in the text to prove that good ethics is good business.
- _____ 5) Higher profit margins will lead to fiercer competitions and even final extinction of business.
- _____ 6) The use of sweated labors is considered to be an illegal practice.
- _____ 7) What producers of Tylenol had done proved that good ethical practices would yield good results.

_____ 8) The author thinks that unethical practices will finally be exposed in the era of the Internet.

2. Discuss the following questions with your partner.

- 1) According to the author, how can companies be ethical in business?
- 2) Do you know any international company that has unethical practices in its operations? Please do a research and share your findings with your partner.

II. Vocabulary

1. Complete the following sentences with the words given in the box. Change the form when necessary.

peer	hire	levy	thrust
manual	instinct	subnormal	accountable

- 1) Many countries _____ special taxes and fees on tourists.
- 2) _____ evaluation is very important in human resources appraisal.
- 3) New _____ get raises after a set period of time.
- 4) When the police came, the demonstrators were _____ back behind the barriers.
- 5) The lack of _____ accounts for much of the public anger toward the new government.
- 6) The greatest friend the packaging industry has is the sporting _____ of the buying public.
- 7) Much of the area of the country has received _____ precipitation since the end of January, leading to a dry land.
- 8) Our business scope includes hardcovers, catalogs, top-grade magazines, and high-tech product _____.

2. Find the synonyms for the words or expressions in the brackets from the text and fill in the blanks with the proper form of the words you've found.

- 1) A great deal has been done internally to r_____ the situation. (make up for)
- 2) The politician a_____ himself with those who voted against the tax bill. (support)
- 3) Though popular online, the novel was written by an a_____ author. (unknown)
- 4) In different states, the p_____ of business practices varies widely. (monitor)

- 5) Teenagers are likely to follow others and they often e_____ the behavior of their idols. (model)
- 6) This case is different from the other one, so no a_____ can be drawn between them. (comparison)
- 7) The sustainable development of a country should always o_____ the growth of GDP. (be given priority over)
- 8) High-speed Internet service, considered a luxury several years ago, has now become u_____. (universal)

III. Paraphrasing

1. Rewrite the following sentences with the words or expressions given in the brackets.

- 1) In reality, a company's culture is defined by what the top executives actually do. Employees model—that is, they emulate their boss' behavior. (decide; imitate)

- 2) They have to see employees recognized and promoted who have modeled ethical behavior even at a short-term cost to the bottom line. And they have to know that those who have behaved unethically will be fired or otherwise appropriately held accountable for their behavior. (be held responsible for)

- 3) Eschewing the short-term fix, they recalled all products, not just those in the region where the poisoning had occurred, and then invented the now ubiquitous tamper-proof seal. They went on to gain greater market share and customer loyalty as a result. (instead of)

- 4) Renowned for effectively focusing the organization on just five key objectives each quarter and being relentless about achieving them, Wiles encouraged employees to do everything possible to carry out their goals. (persistent; accomplish)

- 5) Without trust in the leader, the instinct for survival takes over and the cost to the organization in misexecution, chaos, and rebuilding is huge. (disorder)

2. Rewrite the following sentences in your own words.

- 1) While top managers are sometimes protected by their peers or forgiven for unethical conduct on the grounds that their departure would be too disruptive, the fact is that the company leadership should be expected to adhere to the highest standards.

- 2) Unless the original gouger is also the most efficient—an unlikely case—then the gouger suffers a far greater cost (losses or even extinction) than it would have if it had operated at the normal rate of return in the first place.

- 3) Initial denial of the problem created both hard and soft losses for Intel, but finally doing the right thing made the problem go away at a relatively modest cost. In actuality, very few Pentiums were returned.

- 4) At first, the strategy led to improved performance, sales growth, and market-share gains. But as pressure increased to achieve the objectives at any cost, the employees began to flirt with unsound practices.

- 5) ...because of the ubiquitous, instant, and anonymous communication afforded by the Internet, unethical excesses can be easily exposed and disseminated—at little or no cost.

IV. Translation

1. Sentence Translation

- 1) Of course, individual employees are responsible for their own behavior and are driven by their own internal sets of values and principles, by their own personal character, and their courage to live by these values and principles.
- 2) To encourage employees to act on principle, an organization must be led by a chief executive who actually makes decisions not only within business and legal boundaries but also within ethical boundaries.
- 3) ...but if politics doesn't override the ethical conclusions, the penalty costs levied by the courts could wipe out the retained earnings of the industry.
- 4) The end result was bankruptcy for the company and the conviction of the CEO in federal court on grounds of fraud. Was Q. T. Wiles always a crook? I doubt it. Rather, Wiles failed to attach ethical boundary conditions to his relentless demands that employees meet the five key objectives no matter what!
- 5) These sudden periods of uncertainty require the troops to trust their leaders absolutely in order to stay together as a team and focus on the objectives.

2. Passage Translation

诚信是任何一个成功组织都需要的奠基石，然而它也是众多当代组织所缺失的特质。调查显示，顾客、投资人以及其他利益相关者对于商界的可信度向来持有怀疑态度。打造企业诚信的口碑可能需要很长的时间，并且需要相当大的付出和投资。但是，当组织陷入危机或丑闻，其诚信的声誉不断遭到挑战时会怎样？过去十年间，跨国公司在中国市场的诚信危机频发。面对危机，他们采取的措施不尽相同，有的是拖延，有的是隐瞒，有的是直面问题。然而，修复信誉、恢复声誉的过程极其艰难。企业要持续发展，首先就得做一个有诚信、有责任感的企业公民。

V. Cloze

Decide which of the words given in the box below would best complete the passage if inserted in the corresponding blanks. The words can be used ONCE ONLY.

A. data	B. fund	C. image	D. mutual	E. target
F. lapses	G. release	H. adhere	I. license	J. common
K. disclosed	L. disciplines	M. compliance	N. responsibility	O. confidentiality

It is important to 1) _____ to ethical norms in research. Ethical norms promote

the aims of research, such as knowledge, truth, and avoidance of error. For example, prohibitions against fabricating, falsifying, or misrepresenting research 2) _____ promote the truth and minimize error.

Research often involves a great deal of cooperation and coordination among many different people in different 3) _____ and institutions. Ethical standards promote the values that are essential to collaborative work, such as trust, accountability, 4) _____ respect, and fairness. For example, many ethical norms in research, such as guidelines for authorship, copyright and patenting policies, data sharing policies, and 5) _____ rules in peer review, are designed to protect intellectual property interests while encouraging collaboration. Most researchers want to receive credit for their contributions and do not want to have their ideas stolen or 6) _____ prematurely.

Ethical norms in research also help to build public support for research. People are more likely to 7) _____ a research project if they can trust the quality and integrity of research.

In addition, many of the norms of research promote a variety of other important moral and social values, such as social 8) _____, human rights, animal welfare, 9) _____ with the law, and public health and safety. Ethical 10) _____ in research can significantly harm human and animal subjects, students, and the public.

VI. Listening

1. Listen to Part One and complete the following passage with the information you get.

Levi Strauss is one of the world's largest 1) _____ clothes manufacturers and also one of the first international companies to adopt a corporate code of conduct to 2) _____ all contractors who manufacture and finish its products and to aid selection of countries in which to 3) _____. Its code of conduct 4) _____ two parts: Business Partner Terms of Engagement and Country Assessment Guidelines.

The first part of the code of conduct is used by Levi Strauss to 5) _____ that follow workplace standards and practices 6) _____ its policies and to help 7) _____. In addition to meeting acceptable general ethical standards, 8) _____ all legal requirements, and sharing Levi Strauss' 9) _____ to the environment and community involvement, Levi Strauss' business partners must 10) _____ the following employment guidelines.

2. Listen to Part Two and choose the best answer to each question.

- 1) How many employment guidelines are mentioned?
 - A. Six.
 - B. Seven.
 - C. Eight.
 - D. Nine.
- 2) Levi Strauss' partners should allow its workers to have _____.
 - A. five days of work per week
 - B. one day off per week
 - C. three days off per week
 - D. at least one day off per week
- 3) Workers at Levi Strauss' partners can _____.
 - A. join unions
 - B. use child labor
 - C. use forced labor
 - D. be given corporal punishment
- 4) Levi Strauss' business partners provide _____ for their staff.
 - A. a safe working environment
 - B. a healthy working environment
 - C. appropriate residential facilities
 - D. all of the above
- 5) _____ might be discussed in the following part of this recording about Levi Strauss' code of conduct.
 - A. The environmental policy
 - B. Country Assessment Guidelines
 - C. The finishing industry practices
 - D. The manufacturing industry practices

VII. Writing

Read the following part of a news report from *China Daily*, and write a composition of 300–350 words to share your thinking on ethics regarding cybersecurity. You may reflect on your own experience as an Internet user or write from the perspective of an Internet operator.

Ride-Hailing Giant Didi Fined over Eight Billion Yuan

China's cybersecurity regulator said on Thursday it has fined ride-hailing giant Didi Global Inc. more than eight billion yuan, sending a strong message to the Internet industry that it is vitally important to strengthen protection of data security and personal information.

The decision shows that China is aligning with international practices in toughening regulations on data breaches, highlighting the fact that prioritizing data security has become essential for the healthy development of companies, industry experts said.

The Recovery of Trust: A Case Study of Siemens

Notes:

1. Institute of Business Ethics

(IBE): Established in 1986, the London-based charity aims to encourage high standards of business behavior based on ethical values across the world.

(英国)商业伦理协会

Trustworthy conduct is a core principle in ethics. In many respects, to be ethical is to be trustworthy:

- Trustworthiness and ethical conduct share many common themes, including the centrality of values such as integrity, actions matching words, promise fulfillment, trying one's best, showing genuine concern for others, and fairness.
- Principles of ethics underlie and inform our expectations of what constitutes trustworthy behavior.
- To abuse another's trust suggests an "inauthenticity" in the way we have portrayed ourselves that, in many situations, would be unethical.
- A reputation for trustworthiness and strong trust relationships are founded on a robust ethical culture, supported by leaders, systems, and policies that are designed to nurture employees' trustworthiness and trusting relations at work.

Thus, as part of a robust ethical culture, trustworthiness needs to be fostered.

In the report *Building and Restoring Organizational Trust* published by the **Institute of Business Ethics (IBE)**¹ in 2011, we showed how trust in organizations can be rebuilt. We carefully defined the nature of trust, and explained how it is established over time, between individuals and, most of all, at an organizational level. We showed how an organization's trustworthiness is built and sustained over time and we provided a model and a set of best-practice interventions for how organizations can protect and recover a reputation of trustworthiness when faced with a major trust failure or crisis.

This case study paper supplements our earlier report by examining how six organizations including Siemens faced a trust failure, and attempted to respond. By describing and analyzing the experience and responses of these companies, we aim to share insights into the process of organizational trust repair.

Trust Failure at Siemens

In November 2006, regulatory investigations of the German engineering giant Siemens revealed that hundreds of employees had been **siphoning off**² millions of euros into “**phoney**³ consultants’ contracts, false bills, and **shell firms**⁴” in order to pay massive bribes to win contracts. A trial judge described it as “a system of organized irresponsibility that was implicitly **condoned**⁵” (senior managers used removable **Post-it notes**⁶ to authorize potentially incriminating documents).

The scandal shamed Siemens, not only in the eyes of furious shareholders and investors but also the German public, and it brought humiliation to thousands of its employees. Its trustworthiness came under intense scrutiny, and its integrity was called into question, as well as the benevolence of its senior leaders in appearing to tolerate such practices. One leading group of shareholders questioned the Board’s basic competence for its handling of the affair.

Yet Siemens’ belated, full response to the scandal has been widely praised by many independent anti-corruption and ethics experts, including the Organization for Economic Cooperation and Development (OECD) and US Federal authorities. It is instructive, therefore, to analyze its scale and depth for the impact that each intervention had on Siemens’ external reputation for trustworthiness and internal trust levels among its staff.

Immediate Response

At the time of the German authorities’ first raids, Siemens played down the affair as a matter of a few million euros. Within a month, its own estimate of the sums involved had spiraled to €420 million. Key executives, including the then recently installed CEO Klaus Kleinfeld (2005–2007), repeatedly denied awareness or involvement. Chairman Heinrich von Pierer, CEO during the

2. siphon off: to dishonestly take money from a business, account, etc.

私自抽调（钱款），挪用

3. phoney: false or not real, and intended to deceive someone
假的，冒充的

4. shell firm: 空壳公司

5. condone: to accept or forgive behavior that most people think is morally wrong
宽恕，原谅

6. Post-it note: 便利贴

7. contrite: feeling guilty and sorry for something bad that you have done

懊悔的, 悔悟的

8. skeptic: someone who has doubts about whether something is true, right, or good

持怀疑态度的人

9. revelation: a surprising fact about someone or something that was previously secret and is now made known

被揭露的真相

10. amnesty: a period of time when you can admit to doing something illegal without being punished

赦免期

period under investigation (1992–2005), was “visibly **contrite**” when he faced shareholders in January 2007, citing his “deep distress” that his compliance regime had not prevented the alleged misdeeds.

Thus, the firm’s first statements appear to be an example of an ill-suited, cursory, or defensive acknowledgment, attempting—unsuccessfully—to downplay a developing scandal prematurely. This tactic appeared self-serving and did little to protect, let alone enhance stakeholders’ impressions of Siemens’ integrity. Many viewed it as incompetent. Indeed, senior executives made public pledge to restore the firm’s battered reputation just a month later.

Diagnosis

As well as four international investigations, Siemens announced their own internal inquiry. Siemens wanted to have in place “a system that will prevent and detect unethical and illegal conduct and serve as a benchmark for other companies,” and “a Harvard Business case on how you do it right”—quotes suggestive of a commitment to ethical best practice.

The exhaustive internal investigation was overseen by a New York law firm, Debevoise & Plimpton. Their rigorous approach alienated some Siemens’ managers. However, the length, depth, and breadth of their investigation seemed to convince most **skeptics**⁸ inside the firm of the pressing urgency of reforms, its thoroughness being a tangible display of ability and integrity.

But this exhaustive diagnosis still met with internal resistance, and it was not until the following year that the most serious **revelations**⁹ came to light. This followed the departures of the CEO and chairman, and the decision by the newly appointed CEO, Peter Löscher, to announce a month-long **amnesty**¹⁰ for employees to come forward, explicitly excluding former directors. Forty whistle-blowers brought more incriminating evidence, extending the scandal’s reach into the previous Management Board.

Several systemic elements have been cited as contributing to the scandal, including an aggressive growth strategy that, arguably, compelled managers to see bribes as a “tempting short-cut” to

hitting tough performance targets; a complex, decentralized, matrix-like structure that allowed divisions to effectively run themselves, with minimal oversight from HQ¹¹, and “feeble” processes on checks and balances, and **accountability**¹² that allowed the payments to be made. But perhaps above all, commentators remarked upon Siemens’ corporate culture at the time which seemed openly tolerant of such activities, helping staff to feel that bribes were “not only acceptable but implicitly encouraged,” allowing them to be complicit in the deceit. A professor at the University of Frankfurt said, “It is hard to believe that something on this scale could be so organized and that no control was in place to catch it.”

However, it should be noted that bribes were relatively common practice in German business at the time, and even tax-deductible.

Reforming Interventions

Early on, the Board appointed Michael Hershman, co-founder of **Transparency International**¹³, to serve as its adviser—a shrewd and high-profile act of “trustworthiness demonstration,” via affiliation with a leading anti-corruption expert.

Hershman argued that the challenge facing Siemens was to “create a culture in which managers do not fall back into easy and illegal patterns of behavior.”

With Hershman’s guidance, Siemens rolled out a new set of strict rules and processes on anti-corruption and compliance across the global business, designed to affirm what constitutes trustworthy business, and to impose constraints on operating procedures to make it happen, including a global Compliance Program with a three-pillar system: “preventing, detecting, responding.” They hired over 500 full-time compliance officers (up from just 86 in 2006), and their new investigation unit would be led by a former **Interpol**¹⁴ official—a tangible investment in controlling for trustworthy conduct (“distrust regulation”).

Alongside stricter requirements concerning relationships with “consultants,” Siemens established compliance help-desks and

11. HQ: headquarters
总部

12. accountability:
responsibility
责任, 责任心

13. Transparency International: a
global civil society
organization leading the
fight against corruption
透明国际, 国际透明组
织

14. Interpol: the world’s
largest international
police organization
国际刑警组织

15. ombudsman:

someone who deals with complaints made by people against the government, banks, insurance companies, etc.

(专门处理民众投诉的)民情调查员, 巡视官

16. penance:

punishment or suffering that you accept or give to yourself to show you are sorry for having behaved badly

(表示忏悔的)自我惩罚

17. furor: a sudden expression of anger among a large group of people about something that has happened

公愤, 群情激愤

18. MD: managing director

总经理

hotlines, and an external **ombudsman**¹⁵ based worldwide and online. They created a web portal for employees to evaluate the risk in their client and supplier interactions. These interventions are targeted at shaping employees' integrity through improvements in their ability, while treating any potentially compromised employee coming forward with benevolence and fairness.

Yet, as Hershman says, "there are new processes, new people, new procedures...but that does not make a difference in the world unless there is a change in culture." To which, Siemens launched a comprehensive program of training and education on anti-corruption practices for its employees. By 2008, Siemens had trained more than half its 400,000-strong global workforce on anti-corruption issues, whether on web-based courses or in "classroom" formats.

Siemens also signaled a shift in strategy, in terms of commercial opportunities, announcing early on that it would avoid competing in certain known hotspots for corruption or unethical practice in some countries—a simple gesture, though not materially punishing to the company's finances. More substantial was the announcement to voluntarily suspend their applications for funding from the World Bank for two years. Siemens and the World Bank also agreed to a 15-year program which binds Siemens to pay \$100 million to nonprofit organizations fighting corruption. Both are forms of "**penance**¹⁶," suggestive of remorse and renewed benevolence. Finally, the firm has taken over 900 internal disciplinary actions, including dismissals ("distrust regulation").

Neither Kleinfeld nor von Pierer survived the **furor**¹⁷, both being pushed to resign during one week in April 2007. Kleinfeld's replacement, Peter Löscher, has declared, "Highest performance with highest ethics—this is not a contradiction. It is a must." As well as the amnesty, he supplemented the previous reforming interventions by replacing Siemens' dauntingly complex matrix structure with a more streamlined structure comprising just three divisions, whose **MDs**¹⁸ sit on the Board. Löscher called for "clear lines of responsibility, a high level of transparency, and maximum speed" to enhance communications between managers and direct reports.

Evaluation

The firm continued its review of millions of bank account statements, documents, and transactions throughout 2008, and has been praised for its efforts to identify unacceptable practice and to prevent reoccurrence (“distrust regulation” via a systematic evaluation).

Overall, the scandal cost Siemens €2.5 billion, including €2 billion of fines, as well as the cost of an exhaustive analysis of its financial transactions, bail payments for indicted executives, and fees (around €63 million) to outside advisers. The firm was also barred from dealings with certain clients. The cost to employees of two long years of shame under intense and hostile public scrutiny, especially in Germany, is difficult to calculate.

Löscher, the current CEO, has been commended for his approach to ending corruption within Siemens, but he has argued that changing the corporate culture to one driven by ethical standards “is a marathon for us, not a sprint.” By June 2008, however, some company executives were sufficiently confident to declare Siemens “the most squeaky clean company.” The executive charged with overseeing its compliance and ethics, Peter Solmssen, said in October 2008, “We are quite confident we have eliminated anything systemic...but it’s never over.”

Insights on Ethics and Trust Repair

In the Siemens case, trustworthiness was damaged by ethical misconduct. However, a trust failure can be a catalyst for strengthening an organization’s reputation beyond its pre-failure state and organizational trust can be repaired. Here are the insights from the case:

- Unethical behavior can be very costly.
- Premature dismissals of developing scandals can appear self-serving and incompetent, and as a further violation of trust compounding the original problem. The trustworthy course of action is to acknowledge the accusations, to share any known facts, and to initiate a full, urgent, and independent enquiry.
- Independent, ideally external investigations are the most

credible indicator of trustworthiness. The painful rigor of such an investigation can be resented, but it must be endured, until the full extent of the failure is laid bare.

- Discovering the true scale and depth of a trust failure may only be possible when senior leaders leave, and an amnesty is offered to staff to encourage them to come forward.
- The time-scale for a major ethics overhaul is long—measured in years not months—as it invariably involves cultural change. Has Siemens declared victory prematurely?
- Structural, procedural, and cultural interventions should be adopted concurrently. For example, strengthening compliance monitoring and codes of conduct (a form of “distrust regulation”) must be backed up with senior leaders’ exhortations and training investment (“trustworthiness demonstration”).
- Voluntary penance is often necessary for effectively restoring trust. It helps to demonstrate that the organization has learnt from the experience, and the willing submission to punishment implies remorse and concern for damaged relationships.

Exercises

I. Speaking

When most people think of ethics, they think of rules for distinguishing between right and wrong, such as “Do unto others as you would have them do unto you” and “First of all, do no harm.” This is the most common way of defining ethics: norms for conduct that distinguish between acceptable and unacceptable behavior.

Chinese enterprises have long attached importance to business ethics, which is reflected in many aspects and measures. Earlier in 1997, the Credibility Declaration was issued in the Great Hall of the People by the All-China Federation of Industry and Commerce (ACFIC), pledging to maintain ethical business practices in economic activities. In the past two decades, the idea

of ethical behavior and corporate social responsibility has been widely accepted and practiced by businesses, and “Business Ethics” has become a compulsory course in many universities in China as well.

Group Discussion

Situation

- 1) One of your top dealers in Shanghai has recently had family troubles, and his sales have slipped. It looks like it will take him a while to straighten out his family troubles. Meanwhile, you are losing many sales. On performance grounds, you can terminate the dealer’s franchise and replace him. What would you do?
- 2) You have a chance to win a big account that will mean a lot to you and your company. The purchasing agent hints that a “gift” would influence the decision. Your assistant recommends sending a high-end smartphone to the buyer. What would you do?
- 3) You are thinking of hiring a product manager who has just left a competitor’s company. He would be more than happy to tell you all of the competitor’s plans for the coming year. What would you do?
- 4) You are interviewing a capable female applicant for the position of sales. She is better qualified than the men who have been interviewed. Nevertheless, you know that in your industry, some important customers prefer dealing with men. What would you do?

Task

Divide the whole class into four groups. Each group should choose one scenario from the above four. Appoint a group leader to organize the whole discussion and then sum up the group’s opinions. The following are some tips that the group leader can refer to.

- Greet your members.
- Introduce the situation and present the dilemma your group face.
- Provide different options that you may have to solve the problem.
- Evaluate the pros and cons of each alternative by engaging every member.
- Make a rational decision with sound support.
- End the whole group discussion with concluding remarks.

Expression Bank

Situation 1

show empathy and understanding	表达同情和理解
hold a private conversation	进行私人谈话
provide personalized support	提供个性化的支持

(to be continued)

(continued)

design contingency plans to boost sales	设计促进销售的应变方案
have open and transparent communication	进行公开透明的沟通
maintain mutually beneficial relationship	维持互利共赢的关系
last resort	最后的手段

Situation 2

address the issue in a professional manner	以专业的方式处理问题
operate with the highest level of integrity	以最高的诚信行事
business bribery	商业贿赂
company reputation matters most	公司信誉最重要
competitive advantages of the product	产品的竞争优势
win business in a sustainable way	以可持续的方式赢取业务
maintain professional boundaries	坚守职业底线

Situation 3

business espionage	商业间谍活动
disclose confidential information	泄露机密信息
lack of professionalism and integrity	缺乏专业精神和诚信
put...at risk of legal liability	使……面临法律责任的风险
assess candidates based on merits and abilities	根据优点和能力评估候选人
confidentiality clause	保密条款
respect the intellectual property rights of others	尊重他人的知识产权

Situation 4

non-discrimination policy	非歧视政策
fairness and impartiality	公平公正
gender equality	性别平等
mitigate potential impact on sales	减轻对销售的潜在影响
testimonials from other clients	来自其他客户的推荐证明
provide training and support	提供培训和支持
a diverse and inclusive team	一个多元包容的团队

II. Writing

Business Email

Emails have long since taken the place of paper mail. Business emails are a pillar of modern communication. You are working in a consulting company in China. You received an email yesterday from a client asking for your advice on Situation 1. Write a formal business email of

about 250 words, proposing your ideas and solutions to your client. The following is a template for email.

Heading	From: _____ (Your email address) To: _____ (Your client's email address) Subject: _____ Date: _____
Greeting	Dear XXX, / Hi XXX,
Purpose	Start with a natural opening, introducing the purpose of your writing.
Main Content	Elaborate on what you want to communicate in a concise and clear manner. Present your conclusion (and good wishes...)
Closing	Close your message with: Best regards, / Best wishes, / Kind regards, / Sincerely yours, / Yours faithfully,
Signature	Your name (and title)

Topic-Related Vocabulary

- | | |
|---|--------|
| 1. charity donation | 慈善捐款 |
| 2. corporate citizen | 企业公民 |
| 3. corporate liability | 法人责任 |
| 4. environmental analysis | 环境分析 |
| 5. financial audit | 财务审计 |
| 6. stakeholder | 利益相关者 |
| 7. equal pay for equal work | 同工同酬 |
| 8. marketing ethics | 营销道德 |
| 9. corporate philanthropy | 企业慈善 |
| 10. corporate social responsibility (CSR) | 企业社会责任 |