M Business 5th edition Ferrell Solutions Manual

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Chapter 2: Business Ethics and Social Responsibility

Use this Instructor's Manual to facilitate class discussion and incorporate the unique features of the text's highlights. Follow-up via the Connect exercises is then encouraged to provide a holistic understanding of the chapter.

CHAPTER FORECAST

In this chapter, we take a look at the role of ethics and social responsibility in business decision making. First we define business ethics and examine why it is important to understand ethics' role in business. Next we explore a number of business ethics issues to help you learn to recognize such issues when they arise. Finally, we consider steps businesses can take to improve ethical behavior in their organizations. The second half of the chapter focuses on social responsibility and unemployment. We survey some important issues and detail how companies have responded to them.

LEARNING OBJECTIVES

LO 2-1 Define business ethics and social responsibility and examine their importance.

LO 2-2 Detect some of the ethical issues that may arise in business.

LO 2-3 Specify how businesses can promote ethical behavior.

LO 2-4 Explain the four dimensions of social responsibility.

LO 2-5 Debate an organization's social responsibilities to owners, employees, consumers, the environment, and the community.

LEARN THE TERMS

bribes (p. 40)

business ethics (p. 36)

codes of ethics (p. 49)

consumerism (p. 55)

corporate citizenship (p. 52)

ethical issue (p. 39)

plagiarism (p. 48)

social responsibility (p. 36)

sustainability (p. 56)

whistleblowing (p. 50)

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KEY TERMS AND DEFINITIONS

bribes	Payments, gifts, or special favors intended to influence the outcome of a decision.
business ethics	Principles and standards that determine acceptable conduct in business.
codes of ethics	Formalized rules and standards that describe what a company expects of its employees.
consumerism	The activities that independent individuals, groups, and organizations undertake to protect their rights as consumers.
corporate citizenship	The extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders.
ethical issue	An identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical.
plagiarism	The act of taking someone else's work and presenting it as your own without mentioning the source.
social responsibility	A business's obligation to maximize its positive impact and minimize its negative impact on society.
sustainability	Conducting activities in a way that allows for the long-term well-being of the natural environment, including all biological entities. Sustainability involves the assessment and improvement of business strategies, economic sectors, work practices, technologies, and lifestyles so that they maintain the health of the natural environment.
whistleblowing	The act of an employee exposing an employer's wrongdoing to outsiders, such as the media or government regulatory agencies.

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CONTENT OUTLINE

The following section provides the flow of information using the LEARNING OBJECTIVES as a guide, KEY TERMS learners will need to take away from the course and a notation of when to use POWERPOINT SLIDES with LECTURE NOTES to drive home teaching points. There is also a reminder on when CONNECT activities can be used. This is created so that you can facilitate in-class or online discussion effectively.

LO 2-1	Define business ethics and social responsibility and examine their importance. • Introduction • Business Ethics and Social Responsibility • The Role of Ethics in Business	Key Terms: • Business ethics • Social responsibility
PowerPoint Slides	**Lecture Outline and Notes:**	
PPT 2.4	I. Business Ethics and Social Responsibility A. **Business ethics** are principles and standards that determine acceptable conduct in business B. Acceptable behavior is determined by: 1. The organization 2. Stakeholders and interest groups 3. Competitors 4. Government regulators 5. The public 6. The individual's personal principles	
PPT 2.5	C. Global Trust in Different Institutions (Figure 2.1) 1. In business, trust is the glue that holds the customer relationship together 2. The recent global financial crisis took a toll on consumer trust of financial services companies	
PPT 2.6	D. "Tone from the top" 1. Managers must show a strong commitment to ethics and compliance 2. "Tone from the top" requires top managers to acknowledge their own role in supporting ethics and compliance	

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	3. Top managers must: a. Create strong relationships with ethics and compliance department b. Clearly communicate expectations for ethical behavior to all employees c. Educate managers/supervisors about the company's ethics policies d. Train managers and employees on what to do if an ethics crisis occurs
PPT 2.7	E. **Social responsibility** is a business's obligation to maximize its positive impact and minimize its negative impact on society 1. Social responsibility and ethics are not the same a. Ethics refers to individual's or work group's decisions b. Social responsibility is the impact of the entire organization's activities on society
PPT 2.8	F. Laws and regulations 1. Timeline of Ethical and Socially Responsible Activities (Table 2.1) 2. Sarbanes-Oxley Act a. Criminalized securities fraud and stiffened penalties for corporate fraud b. Enacted after the accounting scandals in the early 2000's 3. Dodd-Frank Act a. Passed to reform the financial industry and offer consumers protection against complex and/or deceptive financial products b. Enacted after the most recent recession
PPT 2.10	II. The Role of Ethics in Business A. Growing concerns about legal and ethical issues in business strengthen the public's perceptions that ethical standards and the level of trust in business need to be raised 1. Recent legal and ethical issues: a. Subprime loans and foreclosures b. Accounting fraud c. Cybercrimes d. Deceptive advertising e. Unfair competitive practices 2. Learning to recognize and resolve ethical issues is a key step in evaluating ethical decisions

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LO 2-2	Detect some of the ethical issues that may arise in business. ○ Recognize Ethical Issues in Business ○ Fairness and Honesty ○ Making Decisions about Ethical Issues	Key Terms: • Ethical issue • Bribes • Plagiarism

PPT 2.11

B. Recognizing ethical issues
   1. **Ethical issue** is an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical
   2. Recognizing ethical issues is the most important step in understanding business ethics
   3. Best way to judge the ethics of a decision is to look at a situation from a customer's or competitor's viewpoint

PPT 2.13

C. **Bribes** are payments, gifts, or special favors intended to influence the outcome of a decision
   1. Many business issues seem straightforward and easy to resolve on the surface, but are in reality very complex
   2. Experience with the culture in which a business operates is critical to understanding what is ethical or unethical
   3. One of the principal causes of unethical behavior in organizations is overly aggressive financial or business objectives

PPT 2.14

D. Percentage of U.S. Workforce Observing Specific Forms of Misconduct, 2011-2013 (Table 2.2)

PPT 2.15

E. Misuse of Company Time
   1. Theft of time is a common area of misconduct observed in the workplace
   2. Many employees spend an average of 1 hour/day using social media sites or watching YouTube
   3. Time theft costs are estimated to cost companies hundreds of billions of dollars annually

PPT 2.16

F. Abusive or intimidating behavior is the most common ethical problem for employees
   1. Bullying is associated with a hostile workplace when a person or group is targeted and is threatened, harassed, belittled, verbally abused, or overly criticized
      a. Within the concept of abusive behavior, intent should be a consideration
      b. Abusive behavior is difficult to assess and manage because of diversity in culture and lifestyle

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PPT 2.17	G. Actions Associated with Bullies (Table 2.3)
PPT 2.18	H. Misuse of company resources has been identified as a leading issue in observed misconduct in organizations 1. Issues might include: a. Spending an excessive amount of time on personal e-mails b. Submitting personal expenses on company expense reports c. Using the company copier for personal use 2. Many companies have implemented official policies delineating acceptable use of company resources
PPT 2.19	I. Conflict of Interest 1. Exists when a person must choose whether to advance his or her own personal interests or those of others 2. To avoid, employees must be able to separate their personal financial interests from their business dealings 3. Inside trading is the buying or selling of stocks by insiders who possess material that is still not public
PPT 2.20	J. Fairness and Honesty 1. Employees must: a. Abide by the laws b. Cause no harm through dishonesty c. Use company resources fairly and honestly d. Be aware of company policies e. Recognize ethical behavior
PPT 2.21	2. Companies must: a. Use fair competition practices b. Give full disclosure of potential harm by a product c. Be truthful in advertising d. Keep company secrets e. Meet obligations f. Avoid undue pressure forcing others to act unethically
PPT 2.22	3. **Plagiarism** is taking someone else's work and presenting it as your own without mentioning the source

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PPT 2.23	K. Making Decisions about Ethical Issues 1. It can be difficult to recognize specific ethical issues 2. People often need years of experience to accurately recognize and react to ethical situations 3. Questions to Consider in Determining Whether an Action is Ethical (Table 2.5)
LO 2-3	Specify how businesses can promote ethical behavior. ○ Improving Ethical Behavior in Business Key Terms: ○ Codes of ethics ○ Whistleblowing
PPT 2.24	L. Improving Ethical Behavior in Business 1. Three factors that influence business ethics (Figure 2.2): a. Individual Standards and Values b. **PLUS** Managers' and Co-Workers' Influence c. **PLUS** Opportunity: Codes and Compliance Requirements d. **EQUAL** Ethical/Unethical Choices in Business 2. Many employees use different ethical standards at work than they do at home 3. The activities and examples set by managers and co-workers are critical in gaining consistent ethical compliance 4. If a company fails to provide good examples and direction, confusion and conflict will develop a. Leading to unethical choices in business
2.26	M. **Codes of ethics** are formalized rules and standards that describe what a company expects of its employees 1. Employees must have established ethics policies if employees are to determine what conduct is acceptable 2. Codes and policies on ethics encourage the creation of an ethical culture in the company 3. The enforcement of ethical codes and policies through rewards and punishments increases the acceptance of ethical standards by employees

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PPT 2.27	N. **Whistleblowing** is the act of an employee exposing an employer's wrongdoing to outsiders such as the media or government regulatory agencies 1. One of the most important components of an ethics program is a means through which employees can report observed misconduct anonymously 2. More companies are establishing programs to encourage employees to report illegal or unethical practices internally 3. In 2010, Congress passed the Dodd-Frank Act, which includes a "whistleblower bounty program"
PPT 2.28	O. Improving Ethical Behavior in Business 1. The current trend is to move away from legally based ethical programs to cultural or integrity-based programs that make ethics a core organizational value 2. Effective business ethics programs are good for business performance 3. Firms that develop higher levels of trust function more efficiently and effectively and avoid damaged company reputations and product images

LO 2-4	Explain the four dimensions of social responsibility. • The Nature of Social Responsibility	Key Terms: • Corporate citizenship

PPT 2.29 ***connect*** **Need help understanding social responsibility? Visit your Connect ebook video tab for a brief animated explanation.**	III. The Nature of Social Responsibility A. Social Responsibility Requirements (Table 2.7) 1. ***Financial Viability*** 2. ***Compliance with Legal and Regulatory Requirements*** 3. ***Ethics, Principles, and Values*** 4. ***Philanthropic Activities***

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PPT 2.30 **PPT 2.31** **PPT 2.32**	B. **Corporate citizenship** is the extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders 1. Commitment to corporate citizenship indicates a strategic focus on fulfilling the social responsibilities expected of it by its stakeholders 2. Involves action and measurement of the extent to which a firm embraces corporate citizenship philosophy and following through by implementing appropriate initiatives C. The Arguments For and Against Social Responsibility (Table 2.8)

LO 2-5	Debate an organization's social responsibilities to owners, employees, consumers, the environment, and the community. ○ Social Responsibility Issues • Unemployment	Key Terms: • Consumerism • Sustainability •

PPT 2.34 **PPT 2.35**	IV. Social Responsibility Issues A. Managers consider social responsibility on a daily basis. 1. Among the many social issues that mangers must consider are their firms' relations with: a. Owners and stockholders b. Employees c. Consumers d. The environment e. The community B. Company's Responsibility to Owners and Stockholders 1. Maintaining proper accounting procedures 2. Providing investors with all relevant information 3. Protecting owner's rights and investments C. Company's Responsibilities to Employees 1. Provide a safe workplace and pay them adequately 2. Provide equal opportunities for all employees 3. Keep them informed of what is happening in the company 4. Listen to their grievances and treat them fairly

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PPT 2.36	D. **Consumerism** involves the activities that independent individuals, groups, and organizations undertake to protect their rights as consumers 1. Write letters 2. Lobby government agencies 3. Make public service announcements 4. Boycott irresponsible companies
PPT 2.37	E. Consumer Bill of Rights (John F. Kennedy, 1962) 1. The right to safety 2. The right to be informed 3. The right to choose 4. The right to be heard
PPT 2.38	**F. Sustainability** 1. Conducting activities in a way that allows for the long-term well-being of the natural environment, including biological entities 2. Involves the assessment and improvement of business strategies, economic sectors, work practices, technologies, and lifestyles so that they maintain the health of the natural environment
PPT 2.40	G. Sustainability Issues 1. Pollution a. Water: Society is demanding clean water b. Air: Acid rain and global warming c. Land: Garbage, strip mining, and poor forest conservation 2. Alternative energy a. Reducing carbon emissions forces alternative energy sources
PPT 2.41	H. Companies Responses to Sustainability Issues 1. Making processes more eco-friendly is called "green" business 2. Recycling aluminum, paper, and glass 3. Using green power sources when available 4. Larger companies may have a Vice President of Environmental Affairs
PPT 2.42 **PPT 2.43**	5. ***Greenwashing*** is creating a positive green association for non-green products

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PPT 2.44	I. Company's Responsibility to Their Communities 1. Donations to local and national charities 2. Volunteer support of local causes
PPT 2.45	V. Unemployment A. Unemployment, while an economic issue, carries ethical implications B. Some companies refuse to hire unemployed workers due to lack of experience rather than hiring and then training them C. Factory closures are seen as unethical because it contributes to unemployment D. Protesters say unemployment leads to the growing gap between rich and poor

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BOXED TEXT DISCUSSION QUESTIONS

ENTER THE WORLD OF BUSINESS—*Antibacterial Soap Faces Regulatory and Consumer Pressure*

The soap industry is a strong business within the United States, amounting to more than $5 billion in sales of soaps, shower products, and body washes. The industry has come under scrutiny over product safety and validity of claims, which could lead to significant decreases in profits. If the soap is used too often, a chemical called triclosan—found in approximately 75 percent of antibacterial products—could lead to bacteria that are not only resistant to triclosan but to other antibiotics as well. The Food and Drug Administration (FDA) has proposed that antibacterial soap and body wash manufacturers provide additional evidence that their products are more effective than comparable products and are safe for long-term use. If antibacterial soap manufacturers cannot prove their claims of effectiveness, they might have to re-label their products, reformulate them, or even remove them completely, which would be costly.

1. **Describe the ethical issue.**

   The antibacterial soap industry has come under scrutiny over product safety and validity of claims. This has led to consumer pressure and possible regulations if the firms do not self-regulate first.

2. **What are some of the potential negative effects of triclosan?**

   If products containing the antibacterial chemical triclosan are used too often it could lead to bacteria that are not only resistant to triclosan but to other antibiotics as well. Triclosan might interfere with hormones, making long-term use harmful for the body. Also, there have been concerns raised as to whether triclosan is any more effective than regular soap and water.

3. **What impact could the FDA's proposal have on soap manufacturers?**

   If the proposal of the FDA goes through, it will have significant implications for soap manufacturers and other industries, such as cosmetics, that use triclosan in their products. They might have to re-label their products, reformulate them, or even remove them completely, which would be costly.

CONSIDER ETHICS AND SOCIAL RESPONSIBILITY—Ralph Lauren Sets Example in FCPA Case

Ralph Lauren Corporation discovered that from 2005–2009, bribes were paid to customs and government officials in Argentina in the form of cash, dresses, handbags, and perfume to expedite processes of merchandise in the South American country. This misconduct violates the Foreign Corrupt Practices Act (FCPA), which makes it illegal for companies with operations in the United States to bribe foreign officials. When Ralph Lauren discovered the bribery, it immediately reported the misconduct to the Securities and Exchange Commission (SEC) and worked with government authorities in the investigation. By turning itself in, Ralph Lauren received applause from several SEC officials, who deemed the company's actions ethical. This case demonstrates that it pays to comply with the law when misconduct is discovered.

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1. **How did Ralph Lauren violate the FCPA?**

   From 2005-2009, bribes were paid to customs and government officials in Argentina in the form of cash, dresses, handbags, and perfume to expedite processes of merchandise in the South American country. This misconduct violates the Foreign Corrupt Practices Act (FCPA), which makes it illegal for companies with operations in the United States to bribe foreign officials.

2. **Why did Ralph Lauren receive less severe penalties for the misconduct?**

   When Ralph Lauren discovered the bribery, it immediately reported the misconduct to the Securities and Exchange Commission (SEC) and worked with government authorities in the investigation. The company agreed to pay $1.6 million to settle investigations. More than $700,000 of this payment covers the amount of the bribes paid officials.

3. **How can the Ralph Lauren bribery case set a precedent for other firms when discovering misconduct?**

   By turning itself in, Ralph Lauren received applause from several SEC officials, who deemed the company's actions ethical. This case demonstrates that it pays to comply with the law when misconduct is discovered. Not only can the penalties be less severe, but Ralph Lauren's reputation as a company committed to doing the right thing will likely improve.

GOING GREEN—Sustainability Tradeoffs: Lighter Vehicles and Higher Prices

Producing vehicles with materials such as aluminum, carbon fiber, and high-strength steel are decreasing the weight of vehicles by about 200 pounds, while still providing the same amount of strength and without increasing the retail price. The use of lighter materials also allows for vehicles to be bound with structural adhesives and sealants, which can add rigidity to the body of the vehicle, absorb shock, and potentially provide a safer ride for the customer. As cars become lighter, consumers face higher repair costs when it comes time to repair their environmentally friendly vehicles. These lighter materials are difficult to repair because welding and cutting weaken the surface. Additionally, there have been cases wherein the auto adhesives have melted when reaching certain temperatures.

1. **Discuss some of the trade-offs of having lighter, more sustainable vehicles.**

   Lighter vehicles use less energy and are expected to cut fuel usage in half. Using lighter materials allows the use of structural adhesives and sealants, which can add rigidity to the body of the vehicle, absorb shock, and potentially provide a safer ride. By using these lighter components can cause increases in repair costs due to having to replace whole parts instead of performing repair work. Finally, there have been reports of the auto adhesives melting when reaching certain temperatures.

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2. **Discuss any ethical issues you can identify in this scenario.**

   There could be ethical issues if manufacturers know about the high temperatures possibly causing auto adhesive breakdown and do not inform consumers and/or do not try to fix the situation. Also, there could be ethical concerns if auto repair companies knowingly start replacing entire panels even when it would be possible to repair or replace parts.

3. **In light of the negative consequences of producing these vehicles, do you think companies should continue to produce lighter-weight vehicles in the name of sustainability? Why or why not?**

   Students' answers will vary.

SUPPLEMENTAL LECTURE

Recycling: A Dilemma for Business Firms

In the United States, the amount of consumer and industrial waste has been increasing regularly. It was estimated that by the year 2010, total municipal solid waste reached 250 million tons. Ecological authorities frequently tout recycling as a means of slowing down waste and the need for landfill space. Biodegradable products, those which decompose, are also recommended.

As more companies strive to be ecologically responsible as well as appeal to consumers by offering "green" products, many have come to believe the evidence that such programs may actually be economically profitable. Many companies now offer "green" versions of their traditional products as the proof mounts that many consumers favor these products. Organizations such as Walmart are reducing pollution and waste in anticipation of future federal regulatory mandates. 3M offers toilet-bowl brushes made from the leftover plastic fibers from is Scotch-Brite cleaning cloths. Similarly, Recycline offers toothbrushes and other household and personal grooming products made from recycled Stonyfield Farm yogurt containers.

Many large retailers offer recycling centers for paper, plastics, and aluminum. Best Buy even offers electronics recycling at many of its stores. Large grocery chains frequently give consumers discounts on their purchases if they bring their own bags with them. While recycling has become increasingly widespread, recycling centers can be problematic for two reasons: (1) the lack of a market for recycled products in some areas and (2) the cost of maintaining the recycling centers. For example, one manager of a major retailing firm pointed out that people used the recycling bins to dispose of all kinds of unwanted trash and garbage, disregarding the specific types of materials to be placed in the bins. Every morning, employees had to clean the parking lot of debris from the recycling bins. People would toss in glass, metal, cloth, and garbage in plastic sacks—materials not to be deposited in the recycling bins.

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Many cities in the United States, concerned about the declining amount of landfill space, have introduced recycling for trash and garbage pickup. Those municipalities, as in the case of individual business firms, need an outlet for materials saved for recycling. Sorting is a requirement for municipal recycling—whether done by each household or by specialized sorting equipment.

Two trends may lead to increased recycling by consumers and business firms. One trend is charging for nonrecyclable garbage. For example, some municipalities refuse to pick up nonrecycled trash and garbage, forcing households to hire private firms to pick up nonrecycled items. Another trend is through regulation that requires recycling, such as the German Green Point Law, which requires manufacturers to assume responsibility for the disposal of their packaging.

When consumers and business firms find it is in their economic interests to recycle, then perhaps producers will find ways to use recycled products. For example, Pitney Bowes of Canada Ltd. is one of many companies that now sells copiers that take reusable toner cartridges. Thermo Tech Technologies Inc., another Canadian company, uses a patented technology to turn organic wastes into animal feed supplements or fertilizers.

Technology also has many innovative uses proposed for recycled plastics—some as reformulated plastics, others as insulation or building materials. Biodegradability is the main problem with plastics. Biodegradable plastics, however, can be composted and are therefore healthier for the environment. Household and personal care product firm Seventh Generation offers biodegradable diapers, cleaners, and detergents. While these products must be composted properly in order to fully biodegrade, they do represent a step in the right direction toward fully biodegradable plastics.

Recycling, no doubt, is here to stay. Social responsibility on the part of consumers and businesses will encourage greater use of recycling. Governmental regulation also will spur greater use of recycling in the future.

Sources:

Kristina Dell, "The Promise and Pitfalls of Bioplastic," Time, May 3, 2010, http://www.time.com/time/magazine/article/0,9171,1983894,00.html (accessed September 27, 2012); "The Home Depot and the Environment," Home Depot, Inc. corporate website, https://corporate.homedepot.com/CorporateResponsibility/Environment/Pages/default.aspx accessed September 27, 2012); Jacquelyn Ottman, "A Little Creativity Could Lead to a Big Advantage," *Marketing News*, March 27, 1995, p. 11; Kevin Kelly, "It Really Can Pay to Clean up Your Act," *Business Week*, November 7, 1994, p. 141; Johanna Powell, "Companies Get Their Due for Public Service," *The Financial Post*, November 12, 1994, p. s15; Seventh Generation website, http://www.seventhgeneration.com/search/node/biodegradable (accessed September 27, 2012).

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1. **Why has recycling become more popular and widespread?**

   As more consumers become concerned about the environment and climate change, recycling has become more common. Many cities offer recycling services now, and some organizations also have recycling bins for commonly recycled items. Furthermore, companies like Best Buy offer recycling services for difficult-to-recycle items like electronics. As resources become scarcer and more consumers reject companies perceived as wasteful, organizations have sought to improve their recycling practices in order to cut down on waste and to increase goodwill.

2. **What are some of the issues hindering businesses and organizations from offering further recycling services?**

   Recycling can be expensive because people must be hired to sort the recycled goods. There must also be a market for recyclables. In recessionary periods, oftentimes it becomes too expensive to continue to offer recycling programs because companies seek to cut back on extra expenses. Some cities and towns have found that recycling programs can be expensive to maintain also.

3. **What are some of the solutions companies are developing to help cut down on waste and to recycle more?**

   Some companies are turning to energy saving measures like using renewable energy. They are also looking toward cutting-edge materials to help reduce waste that ends up in landfills. Biodegradable plastics in packaging are relatively new and, while they are not in widespread use, are growing in acceptance and popularity.

CONTROVERSIAL ISSUE

Would You Be the One to Blow the Whistle?

Ethics is concerned not only with an individual's conduct but also with how an individual responds to the actions of others. An employee who takes action upon observing improper conduct by a fellow employee is often referred to as a whistleblower. Having read of the harassment that most often comes to a whistleblower, however, a person will probably think long and carefully before blowing the whistle. The case below is a fictitious example used to discuss the ethical problems for employees.

Adam Brown worked in the design engineering department of a manufacturing firm. One of the policies of the manufacturing firm was that no employee should accept gifts of more than $20 from outside suppliers or firms. As part of his job, Adam Brown frequently communicated and worked with the purchasing department in his firm in providing material and equipment specifications for purchases. Adam's dealings with Martin Cooper, director of the purchasing department, and other employees of the purchasing department were friendly and cordial, and all purchases made for the manufacturing firm seemed to be made in a professional manner.

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One day while talking to a sales representative of one of his firm's suppliers, Adam discovered that Martin Cooper and his wife had received a free trip to the Bahamas, with all air, hotel, and meal expenses paid by the sales representative's company. Adam knew that Martin had not won the trip in a drawing or sweepstakes, and he realized it was an "under the table" gift to Martin for buying the sales representative's products. Accepting such a gift from a supplier was strictly against company policy. Adam likes Martin, and Adam has no evidence that Martin had given special consideration to the supplier in selecting the supplier's products. Also, the supplier's products have met or exceeded all the engineering specifications. Adam rationalizes that most likely the trip was just an expression of appreciation from the supplier, but he still agonizes about what he should do.

(Note: the following questions will all vary depending on the students' point of view. Make sure that they defend their responses no matter which stance they take.)

1. **Was Martin Cooper's free trip an example of unethical business behavior?**
2. **Should Adam report to one of his company's executives about what he had discovered? Or should he talk to Martin Cooper? Or should he just keep quiet?**
3. **If he decides to do nothing, is Adam guilty of unethical business behavior?**

SO YOU WANT A JOB IN BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

What has helped drive the increasing awareness of the importance of business ethics and social responsibility?

Under pressure from employees and consumers, businesses understand the importance of ethical and social responsibility issues. They recognize that being socially responsible and ethical is good for the business's bottom line, as well as for its reputation. As the trend continues to grow, more and more businesses are likely to employ individuals who are experts in these areas.

CHECK YOUR PROGRESS

1. **Define business ethics. Who determines whether a business activity is ethical? Is unethical conduct always illegal?**

   Business ethics refers to principles and standards that determine acceptable conduct in business. Ethical behavior is determined by the public, government regulators, interest groups, and competitors. Unethical conduct is not always illegal, but it does not conform to the principles of society. Ethics goes beyond legal issues. It attempts to build trust among the participants of business.

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2. **Distinguish between ethics and social responsibility.**

   Ethics relates to an individual's values and standards and the decisions he or she makes. Social responsibility concerns the impact of a business's activities on society.

3. **Why has ethics become so important in business?**

   The negative publicity received by many unethical business practices has made consumers very much aware of ethical issues. Consumers are putting pressure on businesses to behave more ethically with all the parties involved directly or indirectly in business affairs.

4. **What is an ethical issue? What are some of the ethical issues discussed in your text? Why are they ethical issues?**

   An ethical issue is an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical. The text categorizes a number of issues, including misuse of company time, bribery, abusive behavior, misuse of company resources, conflicts of interest, communications, and business relationships. These are ethical issues because they involve actions that may be considered unacceptable by society, because they could be perceived as unfair, and/or because they could cause potential harm to other stakeholders.

5. **What is a code of ethics? How can one reduce unethical behavior in business?**

   A code of ethics is a set of formalized rules and standards that describes what a company expects of its employees. One can reduce unethical behavior in business by developing and promoting a code of ethics, and by using different methods such as training, group discussions, or corporate communications.

6. **List and discuss the arguments for and against social responsibility by business (Table 2.8). Can you think of additional arguments (for or against)?**

   Arguments for social responsibility include (1) business helped create problems and should help to solve them; (2) business has the financial and technical resources to help solve problems; (3) as a member of society, business should do its fair share to help others; (4) social responsibility can help prevent increased government regulation; and (5) social responsibility helps to ensure economic survival. Arguments against social responsibility include (1) social responsibility detracts from the profit-making objectives of business; (2) participation in social responsibility programs gives business power at the expense of other segments of society; (3) business may not have the expertise to solve social problems; and (4) social problems are the responsibility of government agencies.

   Students may be able to offer additional arguments for or against being socially responsible.

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7. **What responsibilities does a business have toward its employees?**

   A business should provide employees with a safe workplace, pay them adequately, listen to their grievances, and treat them fairly.

8. **What responsibilities does business have with regard to the environment? What steps have been taken by some responsible businesses to minimize the negative impact of their activities on the environment?**

   Businesses have the responsibility of maintaining a healthy environment. Businesses must take responsibility for their actions as part of society. Some companies focus on prevention as part of environmental responsibility. Others view the protection of the environment as a way of reducing costs and increasing profits. More companies are adopting social responsibility audits to determine how effective the programs have been and to help develop future programs.

9. **What are a business's responsibilities toward the community in which it operates?**

   Businesses have responsibilities to the general welfare of the communities and societies in which they operate. Many businesses simply want to make their communities better places for everyone to live and work.

GET INVOLVED

1. **Discuss some recent examples of businesses engaging in unethical practices. Classify these practices as issues of conflict of interest, fairness and honesty, communications, or business relationships. Why do you think the businesses chose to behave unethically? What actions might the businesses have taken?**

   Student answers will vary, but they should support their answers with information from the text.

   Sample student answer: When Duke Energy acquired Progress Energy, it was agreed that the Duke Energy CEO would step down and the Progress Energy CEO would assume the position of CEO of the newly merged company. However, shortly after the merger, the board—the majority consisting of Duke Energy board members—ousted the CEO of Progress Energy and reinstated the CEO of Duke Energy. Although the board members explained that the Progress Energy CEO's management style was not sufficient for the job, stakeholders suspected a conspiracy and Duke Energy was investigated.

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Potential ethical issues include conflict of interest if the board members acted in their own best interests rather than in the interests of the company; fairness and honesty if they did conspire to replace the CEO all along; insufficient communication since most stakeholders, many workers, and even some board members did not understand why the ouster took place; and business relationships since the replacement appeared to breach the agreement between the two companies when they merged. In this example, students might assume that the board members from Duke Energy favored the Duke Energy CEO for more personal reasons. Some proposed actions would have been to refuse to merge if there were concerns

about the other CEO's management style, negotiate a new agreement about the CEO position before the merger, place the company and stakeholder relationships first and avoid conflicts of interest, or, if there were legitimate reasons for replacing the CEO, clearly communicating to stakeholders why the replacement should take place.

2. **Discuss with your class some possible methods of improving ethical standards in business. Do you think that business should regulate its own activities or that the federal government should establish and enforce ethical standards? How do you think businesspeople feel?**

   Student answers will vary. Students who might favor businesses regulating their own activities might argue that businesses understand their industries better and would therefore have a better understanding of which ethical standards to adopt. Businesses could also come up with unique and creative ways to meet the needs of their stakeholders than if they were constrained by regulation. Those who favor government regulation might point toward the many business scandals that have occurred in recent years and the necessity for government regulation to close loopholes and keep businesses from advancing their own interests at the expense of society. Most businesspeople prefer less regulation as it tends to limit their activities, although some opinions of businesspeople might vary depending on the person.

3. **Find some examples of socially responsible businesses in newspapers or business journals. Explain why you believe their actions are socially responsible. Why do you think the companies chose to act as they did?**

   Student answers will vary depending on their choices. Some good places to investigate would be *Ethisphere* magazine's "World's Most Ethical Companies" or *Fortune* magazine's "Best Companies to Work for."

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BUILD YOUR SKILLS

The following information is extracted from *Gray Matters: The Ethics Game Manual*:

Objectives

1. Make students aware of various ethical challenges that can arise in their day-to-day job responsibilities.
2. Stimulate students' imaginations regarding the ethical consequences of their business decisions and actions.
3. Strengthen students' skills in applying textbook knowledge to hypothetical situations.
4. Involve students in discussion rather than have them listen passively to a lecture or read an abstract set of ethical principles.

This game is designed to teach the solving of ethical dilemmas that occur almost every day in every kind of business. It is also designed to create controversy. It is structured to bring out more than just one company's policies—to allow the participants to argue multiple approaches to ethical dilemmas. For example, is there only one answer—regardless of the circumstances? Or are there modifying influences? Right is right, but what is right?

The intentional controversy doesn't stop with the answers. It carries on into the values of the answers. In a game, there must be scorekeeping. You may disagree with the values of some of the answers, but do you always agree with the penalties in football? Or that fine line that distinguishes a hit from an error in baseball?

Ethics is dynamic. No one solution is always correct nor is another solution always wrong. Some solutions appeal to some while other solutions appeal to others. In *Gray Matters*, every mini-case poses four solutions. In some cases, only one solution is correct; in others, more than one is correct. But which is most correct? In a few mini-cases, none of the posed answers are correct. But one will be the best selection from the options listed.

In theory, each possible answer should entice somebody, thereby generating discussion. It is the discussion that is valuable, for out of the discussion will come the rationale for an answer. None of the posed answers can be changed. The players must pick the one they can best justify—based on company policies, their experiences, their education, their ethical training, and their beliefs.

Materials

- 4 mini-case cards (in textbook exercise)
- 4 each A-B-C-D answer flags (instructor can use 3x5 index cards where the answer letters (A-B-C-D) are written one per card)

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How to Play

Competition adds spice to the game, just as it does in real life. It can be played by individuals, or by a larger play group divided into teams. When the class is too large to play as individuals, organize the players into competitive groups. The number of groups optimally should be 3 to 5 (but can be as many as 10). Preferably, no more than 4 to 6 players should be in each group. A group spokesperson will be appointed.

For each mini-case, the group should be allowed 5 minutes for discussion among themselves. At the end of 5 minutes, the leader will ask each group spokesperson to hold up an answer flag pertaining to the group's selected answer. The answers will be recorded by the instructor. Each group will then be asked to explain their answer in one minute. Based on the answer flag presented, each group will be awarded points according to the answers given below. (You may want the groups to keep track of their own scores, or you may wish to photocopy and use the score sheet at the end of this section.)

What is the most essential ingredient to the success of the game? Complete discussion of the ethical dilemma in each question and answer by all the participants.

Answers, Point Values, and Rationale

CASE NO.	ANSWER	POINTS	RATIONAL
4	A	0	May solve the workload problem if you can physically and mentally carry this double workload over a long period. Does not solve the ethical issue, so no credit.
	B	5	It brings to the attention of the supervisor the poor work ethic of your colleague. It also may give you an opportunity to properly expand your own activity.
	C	10	If it works, this is the easy way to solve the problem. Be aware, however, if it doesn't work, you may have to take the next step.
	D	-5	Pushes the problem solving onto someone else. The problem is between you, your supervisor, and your colleague. Solve it there.

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CASE NO.	ANSWER	POINTS	RATIONAL
7	A	5	May do some good.
	B	5	May do some good.
	C	0	Too confrontational.
	D	10	Gets the right people involved in solving the problem.

CASE NO.	ANSWER	POINTS	RATIONAL
36	A	-10	How many other company policies do you also ignore?
	B	5	May solve the problem but then it may not. In fact, it may get very confrontational and most likely will not.
	C	-10	In that case you deserve -10 points.
	D	10	This is the easiest way for you to handle the problem and the one with the most chance of success.

CASE NO.	ANSWER	POINTS	RATIONAL
40	A	-10	That makes you also guilty of theft.
	B	0	He probably knows that.
	C	10	Ethics will have it investigated.
	D	5	This may also get the problem investigated; but then again, it may not.

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SCORE SHEET: Photocopy the chart, fill in the group leader's name at the top of each column, and record the points for the choices selected.

CASE NO.	ANSWER	POINTS
4	A	0
	B	5
	C	10
	D	-5
7	A	5
	B	5
	C	0
	D	10
36	A	-10
	B	5
	C	-10
	D	10
40	A	-10
	B	0
	C	10
	D	5
TOTAL POINTS		

Source: Gray Matters: The Ethics Game by George Sammet, Jr., Lockheed Martin Corporation.

BUILD YOUR BUSINESS PLAN

Find an example within your community of an ethical and/or societal violation, which can be an issue still being resolved. Lead a discussion on the facts of this violation and what the implications are of this violation with the community. Have the students identify the stakeholders affected by this action.

Ask the students for volunteers to discuss the industry they are considering for their business plan. Probe them to identify any environmental violations, product defects, recalls, etc. that they need to be aware of as they proceed to gather information on this industry.

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SEE FOR YOURSELF VIDEOCASE: THE CHALLENGE OF BUILDING TRUST IN BUSINESS

Case Overview

Discusses the challenges businesses face in regaining consumers' trust after the scandals that have rocked the past decade. Organizations like the Arthur Page Society and the Business Roundtable Institute for Corporate Ethics have studied why Americans mistrust business and the ways to earn that trust back again. The study revealed that consumers are angry about the imbalance of power, in which businesses get corporate bailouts and continue to make large profits while unemployment remains high. Banks and financial services firms have among the lowest trust ratings of all businesses. Only 45 percent of global consumers trust financial services institutions, while 47 percent trust banks.

Possible solutions to these problems include equalizing the power balance by creating mutual value, regaining consumers' trust, creating quality products, selling them at fair prices, being transparent, treating employees fairly, and practicing social responsibility. To truly regain trust, the old business model of making the most money even at great cost to certain stakeholders no longer works. Now consumers want to know where their money is going and want businesses to act socially responsible. The good news is that businesses in seven states wanting to make a positive change can legally become benefit corporations, which certifies a socially responsible focus. Whatever businesses decide, if they want to regain the trust of the consumer, they must change their traditional value systems.

1. **What are some of the reasons cited in the Arthur Page Society and the Business Roundtable Institute for Corporate Ethics Report for public distrust of corporations?**

   A major issue cited in the report is imbalance of power between top executives and the rest of the workers. The public is angry over corporate bailouts and rising unemployment while corporate management still makes huge profits. If students have a chance to view this report, they can feel free to expand on this question.

2. **What are some of the recommendations made by this report? Can you think of any other recommendations to give companies on how to behave more ethically?**

   The report recommends that corporations take steps to equalize the balance of power through creating mutual value. Corporations must also seek to regain and retain trust. The study also suggests that corporations create quality products/services, sell products/services at fair prices, create and maintain positive employment practices, give investors a fair return, remain active in social responsibility, and create transparency. Students' recommendations to the second part will vary.

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3. **What are the benefits of being perceived as an ethical company? What are the downsides of having a reputation for ethical misconduct?**

   Students' responses to this question may vary. Be sure that they adequately defend their reasoning. A few things they may mention are increased goodwill among stakeholders of ethical companies, increased profits, and trust. Downsides of being unethical include the opposite: decreased profits, decreased trust, and decreased sales.

TEAM EXERCISE

Sam Walton, founder of Walmart, had an early strategy for growing his business related to pricing. The "Opening Price Point" strategy used by Walton involved offering the introductory product in a product line at the lowest point in the market. For example, a minimally equipped microwave oven would sell for less than anyone else in town could sell the same unit. The strategy was that if consumers saw a product, such as the microwave, and saw it as a good value, they would assume that all of the microwaves were good values. Walton also noted that most people don't buy the entry-level product; they want more features and capabilities and often trade up.

Students will form teams and assign the role of defending this strategy or casting this strategy as an unethical act. They can present their thoughts on either side of the issue.

Sample Answers:

Strategy as Ethical: As long as there are plenty of these minimally equipped products on hand and Walmart is transparent about their prices and functionality, then there is nothing wrong with the strategy. In fact, it is an excellent business strategy because it attracts consumers and provides them with the choice to purchase the minimally equipped product or choose to upgrade to a higher priced product with more features.

Strategy as Unethical: Walmart is using a penetration pricing strategy to drive competitors out of business. Its entire strategy is to draw consumers away from the competition into its stores and then up-sell them to higher-priced products. Although this might not be illegal as long as the lower-priced products are available, this practice is unfair to local businesses that cannot compete and is an underhanded way of persuading consumers to come to its stores.

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TERM PAPER OR PROJECT TOPICS

These topics may be assigned as individual or collaborative projects:

1. Advantages and Disadvantages of Social Responsibility Programs for Business
2. A Study of Unethical Business Practices
3. A Survey of Social Responsibility Programs in Corporations (can do a questionnaire survey of local firms)
4. Ralph Nader: Consumer Advocate
5. Environmental Issues and Their Solutions

GUEST SPEAKER SUGGESTIONS

1. A professor or teacher to talk about ethics in business.

2. A representative from a business firm to speak about business ethics, problems with business ethics in a competitive environment, and the importance of business ethics in dealing with consumers.

3. A business communication or English professor or teacher to speak to the class on what constitutes plagiarism, how to paraphrase, and how to use correct documentation.

4. An individual (concerned environmentalist, teacher, professor, etc.) to speak on local environmental issues.

5. A consumer relations manager to describe consumer relations programs of a local firm.

TEACHING SUGGESTIONS

1. As indicated in "Teaching Suggestions" for Chapter 1, instructors may wish to vary the daily organization of the lesson. Varying the sequence of activities adds variety to class presentation.

2. At the beginning of the chapter in the textbook and in this *Instructor's Manual*, objectives are provided. Many instructors write the objectives on the chalkboard or on an overhead at the beginning of the class session and then at the end of the session check off each objective to determine if all the objectives have been achieved. Educational research indicates students learn more effectively when there is a summarization or review of the textbook content at the end of class sessions.

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3. As a "writing to learn" exercise, allow approximately five minutes for students to write their thoughts or summary on this topic:

   What is the importance of ethics and social responsibility in business today?

   The writing exercise can be done with or without the use of the textbook. The purpose of the exercise is for students to consider the topic and apply the knowledge learned in the reading assignment. Research indicates that the act or process of writing helps students to retain information. Feedback may be done by calling on a few students at random to read their writing. Remember, not all feedback need be for a letter grade; instead, the feedback may be treated as an activity to enhance learning. For large classes, an alternative to calling on individual students is to break into small groups and have them share their writing within the small group.

4. "Check Your Progress" is important for this chapter. A suggestion for large lecture halls is to assign different question numbers to different rows. Then call upon one person in a row to give his or her answer.

5. The instructor can lecture using the "Lecture Outline and Notes," covering all of the chapter content. An alternative is not to cover the entire chapter but simply to use the PowerPoints to cover main points of the chapter; then the instructor may have time to use the "Supplemental Lecture" and/or "Controversial Issue" material provided in this *Instructor's Manual*. If students are to have read the chapter prior to class, then the instructor may spend less time lecturing and more time with additional material, discussion questions, and boxed material or cases.

6. Use the quiz provided. Have students write answers quickly. Then have students call out the correct answers in unison. Ask if there are any questions about any of the answers.

7. Occasionally, an instructor may wish to give oral instructions or information to reinforce listening skills. One business professor gives part of her test instructions orally; she believes that teachers reward inattention by repeating information time and time again. She warns students that she will give the instructions only once and will not repeat instructions. Her students learn to listen!

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Part 1
Chapter 2

Business in a Changing World

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CHAPTER 1

The Dynamics of Business and Economics

CHAPTER 2

Business Ethics and Social Responsibility

APPENDIX B

The Legal and Regulatory Environment

CHAPTER 3

Business in a Borderless World

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Learning Objectives

LO 2-1 Define business ethics and social responsibility and examine their importance.

LO 2-2 Detect some of the ethical issues that may arise in business.

LO 2-3 Specify how businesses can promote ethical behavior.

LO 2-4 Explain the four dimensions of social responsibility.

LO 2-5 Debate an organization's social responsibilities to owners, employees, consumers, the environment and the community.

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Business Ethics

- **Business Ethics**
  - Principles and standards that determine acceptable conduct in business
  - Acceptable behavior determined by
    - ✓ The organization
    - ✓ Stakeholders and interest groups
    - ✓ Competitors
    - ✓ Government regulators
    - ✓ The public
    - ✓ The individual's personal principles

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Trust

- **Aspects of Trust**
  - In business, trust is the glue that holds relationships together
  - The recent global financial crisis took a toll on consumer trust of financial services companies
  - Trust in banks is lower than in other industries, except for media and government

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Tone from the Top

- **Managers**
  - Must show a strong commitment to ethics and compliance. This "tone from the top" requires top managers to acknowledge their own role in supporting ethics and compliance
    - ✓ Create strong relationships with ethics and compliance department
    - ✓ Clearly communicate expectations for ethical behavior to all employees
    - ✓ Educate managers/supervisors about the ethics policies
    - ✓ Train managers/employees on what to do if ethics crisis occurs

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Social Responsibility

- **Social Responsibility**
  - A business's obligation to maximize its positive impact and minimize its negative impact on society
- **Social Responsibility and Ethics Differ**
  - Ethics refers to the decisions made by an individual or a work group that society evaluates as right or wrong
  - Social responsibility refers to the impact of the entire organization's activities on society

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Laws and Regulations

- **Sarbanes-Oxley Act**
  - Criminalized securities fraud and stiffened penalties for corporate fraud
  - Enacted after accounting scandals in the early 2000s

- **Dodd-Frank Act**
  - Passed to reform the financial industry and offer consumers protection against complex and/or deceptive financial products
  - Enacted after the most recent recession

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Timeline of Ethical and Socially Responsible Activities

1960s	1970s	1980s	1990s	2000s
Social issues	Business ethics	Standards for ethical conduct	Corporate ethics programs	Transparency in financial markets
Consumer Bill of Rights	Social Responsibility	Financial misconduct	Regulation for business ethics	Corporate misconduct
Disadvantaged consumer	Diversity Bribery	Self-regulation	Health issues	Intellectual property
Environmental issues	Discrimination	Codes of conduct	Safe working conditions	Regulation of accounting and finance
Product safety	Identifying ethical issues	Ethics training	Detecting misconduct	Executive compensation

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The Role of Ethics in Business

- **Current trends**
  - Growing concern that legal and ethical issues in business strengthen the public's perceptions that ethical standards and the level of trust in business need to be raised
  - Learning to recognize and resolve ethical issues is a key step in evaluating ethical decisions
- **Recent legal and ethical issues**
  - ✓ Subprime loans and foreclosures
  - ✓ Executive compensation
  - ✓ Cyber crimes
  - ✓ NFL handling of domestic abuse
  - ✓ Unfair competitive practices

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Recognizing Ethical Issues

- **Ethical Issues**
  - An identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical
  - Recognizing ethical issues is the most important step in understanding business ethics

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Ralph Lauren Bribery

- Between 2004-2009, Ralph Lauren's Argentinian subsidiary bribed customs officials
- The clothing label paid an $882,000 penalty as a non-prosecution agreement with the Justice Department, and gave up roughly $735,000 in illicit profits and interest as part of a non-prosecution agreement with the Securities and Exchange Commission
- The SEC and Justice Department both praised the company's response to the misconduct

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Bribery

- **Bribery**
  - Payments, gifts or special favors intended to influence the outcome of a decision
- **Many business issues seem easy to resolve on the surface, but in reality are very complex**
  - Experience with the culture in which a business operates is critical to understanding what is ethical or unethical
  - One of the principal causes of unethical behavior in organizations is overly aggressive financial or business objectives

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Percentage of U.S. Workforce Observing Specific Forms of Misconduct 2011-2013

	2011 (%)	2013 (%)
Overall	45	41
Abusive behavior	21	18
Lying to employees	20	17
Conflict of interest	15	12
Violating company Internet use policy	16	12
Discrimination against employees	15	12
Violations of health or safety regulations	13	10
Lying to customers, vendors, the public	12	10
Retaliation against reporters of misconduct		10
Falsifying time reports/hours worked	12	10
Stealing or theft	12	9

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Misuse of Company Time

- **Company Time**
  - Theft of time is a common area of misconduct observed in the workplace
  - Many employees spend an average of one hour each day using social media sites or watching YouTube
  - Time theft costs are estimated to cost companies hundreds of billions of dollars annually

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Abusive and Intimidating Behavior

- **Bullying**
  - ✓ Associated with a hostile workplace when a person or group is targeted and is threatened, harassed, belittled, verbally abused, or overly criticized
  - ✓ Abusive or intimidating behavior is the most common ethical problem for employees
    - ✓ Abusive behavior is difficult to assess and manage because of diversity in culture and lifestyle
    - ✓ Within the concept of abusive behavior, intent should be a consideration

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Actions Associated with Bullies

- Spreading rumors to damage others
- Blocking others' communication in the workplace
- Flaunting status or authority to take advantage of others
- Discrediting others' ideas and opinions
- Use of e-mails to demean others
- Failing to communicate or return communication
- Insults, yelling, and shouting
- Using terminology to discriminate by gender, race, or age
- Using eye or body language to hurt others or their reputation
- Taking credit for others' work or ideas

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Misuse of Company Resources

- ✓ **Misuse of company resources has been identified as a leading issue in observed misconduct in organizations**
- $ **Issues might include:**
  - $ Spending excessive time on personal e-mails
  - $ Submitting personal expenses on company reports
  - $ Using company copier for personal use
  - $ Many companies have implemented official policies delineating acceptable use of company resources

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Conflict of Interest

- **Conflict of Interest**
  - ✓ Exists when a person must choose whether to advance his or her own personal interests or those of others
  - ✓ To avoid, employees must be able to separate their personal financial interests from their business dealings
  - ✓ Insider trading is the buying or selling of stocks by insiders who possess material that is still not public

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Fairness and Honesty for Employees

- **Employees Must**
  - ✓ Abide by the laws
  - ✓ Cause no harm through dishonesty
  - ✓ Use company resources fairly and honestly
  - ✓ Be aware of company policies
  - ✓ Recognize ethical behavior

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Fairness and Honesty for Companies

- **Companies Must**
  - ✓ Use fair competition practices
  - ✓ Give full disclosure of potential harm by a product
  - ✓ Be truthful in advertising
  - ✓ Keep company secrets
  - ✓ Meet obligations and responsibilities
  - ✓ Avoid undue pressure forcing others to act unethically

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Fairness and Honesty

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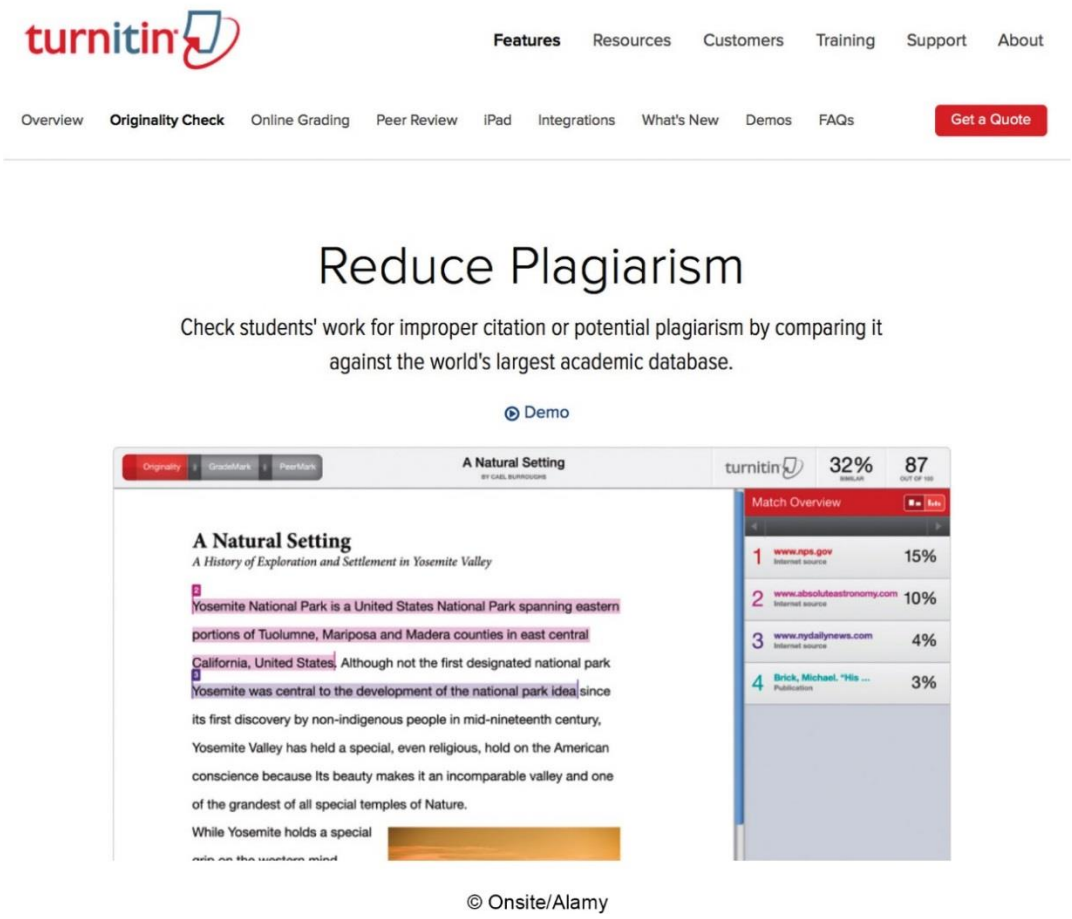
- **Plagiarism**
  - ✓ Taking someone else's work and presenting it as your own without mention of the source, is another ethical issue



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Making Decisions about Ethical Issues

- ✓ It can be difficult to recognize specific ethical issues and people often need years of experience to accurately recognize and react to ethical situations
- ✓ Questions to help determine if an action is ethical
  - Are there potential legal restrictions or violations that could result from the action?
  - Does your company have specific code of ethics or policy on the action?
  - Is this activity customary in your industry? Are there any industry trade groups that provide guidelines or codes of conduct that address this issue?
  - Would this activity be accepted by your co-workers? Will your decision or action withstand open discussion with co-workers and managers and survive?
  - How does this activity fit with your own beliefs and values?

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Three Factors that Influence Business Ethics

- **Individual Standards and Values**
  - Many employees use different ethical standards at work than they do at home
- **Managers and Co-workers**
  - Activities and examples set by managers and co-workers are critical in gaining consistent ethical compliance
- **Opportunity: Codes and Compliance Requirements**
  - If a company fails to provide good examples and direction, confusion and conflict will develop

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General Motors Recall

- General Motors issued a recall on its 2005-2007 Chevrolet Cobalt
- Not until at least 6 deaths were attributed to Cobalt car accidents where the airbags did not deploy due to switch failure
- Allegedly GM engineers knew of the problem as early as 2004, but no recall was issued
- A congressional hearing was ordered to investigate the situation
- Before testifying, GM recalled 1.5 million more vehicles

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Code of Ethics

- **Formalized rules and standards that describe what a company expects of its employees**
  - ✓ Employees must have established ethics policies to determine what conduct is acceptable
  - ✓ Codes and policies on ethics encourage the creation of an ethical culture in the company
  - ✓ Enforcement of ethical codes and policies through rewards and punishments increases the acceptance of ethical standards by employees

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Whistleblowing

- **The act of an employee exposing an employer's wrongdoing to outsiders like the media or government regulatory agencies**
  - ✓ One of the most important components of an ethics program is a means through which employees can report observed misconduct anonymously
  - ✓ More companies are establishing programs to encourage employees to report illegal or unethical practices internally
  - ✓ In 2010, Congress passed the Dodd-Frank Act, which includes a "whistleblower bounty program"

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Improving Ethical Behavior in Business

- ✓ The current trend is to move away from legally based ethical programs to cultural or integrity-based programs that make ethics a core organizational value
- ✓ Effective business ethics programs are good for business performance
- ✓ Firms that develop higher levels of trust function more efficiently and effectively and avoid damaged company reputations and product images

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Four Dimensions of Social Responsibility

Stages	Examples
Stage 1: Financial Viability	Starbucks offers investors a healthy return on investment, including paying dividends
Stage 2: Compliance with Legal and Regulatory Requirements	Starbucks specifies in its code of conduct that payments made to foreign government officials must be lawful according to the laws of the United States and the foreign country
Stage 3: Ethics, Principles, and Values	Starbucks offers healthcare benefits to part-time employees and supports coffee growers by offering them fair prices
Stage 4: Philanthropic Activities	Starbucks created the Starbucks Foundation to award grants to eligible nonprofits and to give back to their communities

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Corporate Citizenship

- **The extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders**
  - ✓ Commitment to corporate citizenship indicates a strategic focus on fulfilling the social responsibilities expected of it by it stakeholders
  - ✓ Involves action and measurement of the extent to which a firm embraces corporate citizenship philosophy and following through by implementing appropriate initiatives

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The Arguments For Social Responsibility

» **For:**

- Business helped to create many of the social problems that exist today, so it should play a significant role in solving them, especially in the area of pollution reduction and cleanup.
- Businesses should be more responsible because they have the financial and technical resources to help solve social problems.
- As members of society, businesses should do their fair share to help others.
- Socially responsible decision making by businesses can prevent increased government regulation.
- Social responsibility is necessary to ensure economic survival.

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The Arguments Against Social Responsibility

» **Against:**

- It sidetracks managers from the primary goal of business – earning profits. Every dollar donated to social causes or otherwise spent on society's problems is a dollar less for owners and investors.
- Participation in social programs gives businesses greater power, perhaps at the expense of particular segments of society.
- Some people question whether business has the expertise needed to assess and make decisions about social problems.
- Many people believe that social problems are the responsibility of government agencies and officials, who can be held accountable by voters.
- Creation of nonprofits and contributions to them are the best ways to implement social responsibility.

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Company's Responsibility to Owners and Stockholders

- Maintaining proper accounting procedures
- Providing investors with all relevant information
- Protecting owner's rights and investments

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Company's Responsibilities to Employees

- Provide a safe workplace and pay them adequately
- Provide equal opportunities for all employees
- Keep them informed of what is happening in the company
- Listen to their grievances and treat them fairly

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Consumerism

- **The activities that independent individuals, groups, and organizations undertake to protect their rights as consumers**
  - ✓ Write letters
  - ✓ Lobby government agencies
  - ✓ Make public service announcements
  - ✓ Boycott irresponsible companies

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Consumer Bill of Rights

- **John F. Kennedy's 1962 Consumer Bill of Rights**
  - ✓ The right to safety
  - ✓ The right to be informed
  - ✓ The right to choose
  - ✓ The right to be heard

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Sustainability

- ✓ Conducting activities in a way that allows for the long-term well-being of the natural environment, including all biological entities
- ✓ Involves the assessment and improvement of business strategies, economic sectors, work practices, technologies and lifestyles so they maintain the health of the natural environment

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The Home Depot's Values

- ✓ Home Depot has adopted eight core values as the foundation for its ethical culture, including a strong emphasis on sustainability:

1. Taking care of our people
2. Giving back to our communities
3. Doing the right thing
4. Excellent customer service
5. Creating shareholder value
6. Building strong relationships
7. Entrepreneurial spirit
8. Respect for all people

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Sustainability Issues

- ✓ Pollution
  - Water – society is demanding clean water
  - Air – acid rain and global warming
  - Land – garbage, strip mining and poor forest conservation
- ✓ Alternative Energy
  - Reducing carbon emissions forces alternative energy sources

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Response to Environmental Issues

- Making processes more eco-friendly is called "green" business
- Recycling aluminum, paper and glass
- Using green power sources when available
- Larger companies may have a Vice President of Environmental Affairs
- *Greenwashing* is creating a positive green association for non-green products

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Company's Responsibility to the Community

- ✓ Many businesses simply want to make their communities better places for everyone to live and work
- ✓ Most common way to demonstrate this is through donations to local and national charitable organizations

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Unemployment

- Unemployment, while an economic issue, carries ethical implications
- Protesters say unemployment leads to the growing gap between rich and poor
- Some companies refuse to hire unemployed workers due to lack of experience rather than hiring and then training them
- Factory closures are seen as unethical because it contributes to unemployment

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Discussion

- Define business ethics. Who determines whether a business activity is ethical? Is unethical conduct always illegal?
- Do you think that business should regulate its own activities or that the federal government should establish and enforce ethical standards?
- What is an ethical issue? What are some of the ethical issues discussed in your text? Why are they ethical issues?
- Discuss the arguments for and against social responsibility by business.

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