# *Business Foundations A Changing World 11th edition Ferrell Solutions Manual*

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# Chapter 2: Business Ethics and Social Responsibility

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# YOUR CONTENT

## SUMMARY

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.

**LO 2-6** Evaluate the ethics of a business's decision.



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## KEY TERMS AND DEFINITIONS

| | |
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| **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; 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 feature was created to facilitate in-class or online discussions more effectively.

| LO 2-1 | Define business ethics and social responsibility and examine their importance.<br>• Introduction<br>• Business Ethics and Social Responsibility<br>• The Role of Ethics in Business | Key Terms:<br>• Business ethics<br>• Social responsibility |
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| PowerPoint Slides | Lecture Outline and Notes: |
|---|---|
| **PPT 2.4** | I. Business Ethics and Social Responsibility<br>A. **Business ethics** are principles and standards that determine acceptable conduct in business<br>B. Acceptable behavior is determined by:<br>1. The organization<br>2. Stakeholders and interest groups<br>3. Competitors<br>4. Government regulators<br>5. The public<br>6. The individual's personal principles |
| **PPT 2.5** | C. Global Trust in Different Institutions (Figure 2.1)<br>1. In business, trust is the glue that holds the customer relationship together<br>2. The recent global financial crisis took a toll on consumer trust of financial services companies |
| **PPT 2.7** | D. "Tone from the top"<br>1. Managers must show a strong commitment to ethics and compliance<br>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:<br>a. Create strong relationships with ethics and compliance department<br>b. Clearly communicate expectations for ethical behavior to all employees<br>c. Educate managers/supervisors about the company's ethics policies<br>d. Train managers and employees on what to do if an ethics crisis occurs |
| **PPT 2.8** | E. **Social responsibility** is a business's obligation to maximize its positive impact and minimize its negative impact on society<br>1. Social responsibility and ethics are not the same<br>a. Ethics refers to individual's or work group's decisions<br>b. Social responsibility is the impact of the entire organization's activities on society |
| **PPT 2.10**<br><br>**PPT 2.9** | F. Laws and regulations<br>1. Timeline of Ethical and Socially Responsible Activities (Table 2.1)<br>2. Sarbanes-Oxley Act<br>a. Criminalized securities fraud and stiffened penalties for corporate fraud<br>b. Enacted after the accounting scandals in the early 2000's<br>3. Dodd-Frank Act<br>a. Passed to reform the financial industry and offer consumers protection against complex and/or deceptive financial products<br>b. Enacted after the most recent recession |
| **PPT 2.11** | II. The Role of Ethics in Business<br>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<br>1. Recent legal and ethical issues:<br>a. Subprime loans and foreclosures<br>b. Accounting fraud<br>c. Cybercrimes<br>d. Deceptive advertising<br>e. Unfair competitive practices<br>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.<br>○ Recognize Ethical Issues in Business<br>○ Fairness and Honesty<br>○ Making Decisions about Ethical Issues | Key Terms:<br>• Ethical issue<br>• Bribes<br>• Plagiarism |
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**PPT 2.12**

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

**PPT 2.14**

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 2.15**

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

**PPT 2.16**

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 2.17**

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 2.18** | G. Actions Associated with Bullies (Table 2.3) |
| **PPT 2.19** | H. Misuse of company resources has been identified as a leading issue in observed misconduct in organizations<br>1. Issues might include:<br>a. Spending an excessive amount of time on personal e-mails<br>b. Submitting personal expenses on company expense reports<br>c. Using the company copier for personal use<br>2. Many companies have implemented official policies delineating acceptable use of company resources |
| **PPT 2.20** | I. Conflict of Interest<br>1. Exists when a person must choose whether to advance his or her own personal interests or those of others<br>2. To avoid, employees must be able to separate their personal financial interests from their business dealings<br>3. Inside trading is the buying or selling of stocks by insiders who possess material that is still not public |
| **PPT 2.21** | J. Fairness and Honesty<br>1. Employees must:<br>a. Abide by the laws<br>b. Cause no harm through dishonesty<br>c. Use company resources fairly and honestly<br>d. Be aware of company policies<br>e. Recognize ethical behavior |
| **PPT 2.22** | 2. Companies must:<br>a. Use fair competition practices<br>b. Give full disclosure of potential harm by a product<br>c. Be truthful in advertising<br>d. Keep company secrets<br>e. Meet obligations<br>f. Avoid undue pressure forcing others to act unethically |
| **PPT 2.23** | 3. **Plagiarism** is taking someone else's work and presenting it as your own without mentioning the source |



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| **PPT 2.24** | K. Making Decisions about Ethical Issues<br>1. It can be difficult to recognize specific ethical issues<br>2. People often need years of experience to accurately recognize and react to ethical situations<br>3. Questions to Consider in Determining Whether an Action is Ethical (Table 2.5) |
| LO 2-3 | Specify how businesses can promote ethical behavior.<br>○ Improving Ethical Behavior in Business<br>Key Terms:<br>○ Codes of ethics<br>○ Whistleblowing |
| **PPT 2.25** | L. Improving Ethical Behavior in Business<br>1. Three factors that influence business ethics (Figure 2.2):<br>a. Individual Standards and Values<br>b. **PLUS** Managers' and Co-Workers' Influence<br>c. **PLUS** Opportunity: Codes and Compliance Requirements<br>d. **EQUAL** Ethical/Unethical Choices in Business<br>2. Many employees use different ethical standards at work than they do at home<br>3. The activities and examples set by managers and co-workers are critical in gaining consistent ethical compliance<br>4. If a company fails to provide good examples and direction, confusion and conflict will develop<br>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<br>1. Employees must have established ethics policies if employees are to determine what conduct is acceptable<br>2. Codes and policies on ethics encourage the creation of an ethical culture in the company<br>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 2.28** | N. **Whistleblowing** is the act of an employee exposing an employer's wrongdoing to outsiders such as the media or government regulatory agencies<br>1. One of the most important components of an ethics program is a means through which employees can report observed misconduct anonymously<br>2. More companies are establishing programs to encourage employees to report illegal or unethical practices internally<br>3. In 2010, Congress passed the Dodd-Frank Act, which includes a "whistleblower bounty program" |
| **PPT 2.29** | O. Improving Ethical Behavior in Business<br>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<br>2. Effective business ethics programs are good for business performance<br>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.<br>• The Nature of Social Responsibility | Key Terms:<br>• Corporate citizenship |
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| **PPT 2.30** | III. The Nature of Social Responsibility<br>A. Four Dimensions of Social Responsibility (Figure 2.3)<br>1. ***Voluntary responsibilities***: Being a "good corporate citizen"; contributing to the community and quality of life<br>2. ***Ethical responsibilities***: Being ethical; doing what is right, just, and fair; avoiding harm<br>3. ***Legal responsibilities***: Obeying the law (society's codification of right and wrong); playing by the rules of the game<br>4. ***Economic responsibilities***: Being profitable |



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| **PPT 2.31**<br><br>**PPT 2.32**<br><br>**PPT 2.33** | B. **Corporate citizenship** is the extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders<br>1. Commitment to corporate citizenship indicates a strategic focus on fulfilling the social responsibilities expected of it by its stakeholders<br>2. Involves action and measurement of the extent to which a firm embraces corporate citizenship philosophy and following through by implementing appropriate initiatives<br>C. The Arguments For and Against Social Responsibility (Table 2.8) |

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

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| **PPT 2.34**<br><br>**PPT 2.35** | IV. Social Responsibility Issues<br>A. Managers consider social responsibility on a daily basis.<br>1. Among the many social issues that mangers must consider are their firms' relations with:<br>a. Owners and stockholders<br>b. Employees<br>c. Consumers<br>d. The environment<br>e. The community<br>B. Company's Responsibility to Owners and Stockholders<br>1. Maintaining proper accounting procedures<br>2. Providing investors with all relevant information<br>3. Protecting owner's rights and investments<br>C. Company's Responsibilities to Employees<br>1. Provide a safe workplace and pay them adequately<br>2. Provide equal opportunities for all employees<br>3. Keep them informed of what is happening in the company<br>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<br>1. Write letters<br>2. Lobby government agencies<br>3. Make public service announcements<br>4. Boycott irresponsible companies |
| **PPT 2.37** | E. Consumer Bill of Rights (John F. Kennedy, 1962)<br>1. The right to safety<br>2. The right to be informed<br>3. The right to choose<br>4. The right to be heard |
| **PPT 2.38** | **F. Sustainability**<br>1. Conducting activities in a way that allows for the long-term well-being of the natural environment, including biological entities<br>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 2.39** | G. Sustainability Issues<br>1. Pollution<br>a. Water: Society is demanding clean water<br>b. Air: Acid rain and global warming<br>c. Land: Garbage, strip mining, and poor forest conservation |
| **PPT 2.40** | 2. Alternative energy<br>a. Reducing carbon emissions forces alternative energy sources |
| **PPT 2.42** | H. Companies Responses to Environmental Issues<br>1. Making processes more eco-friendly is called "green" business<br>2. Recycling aluminum, paper, and glass<br>3. Using green power sources when available<br>4. Larger companies may have a Vice President of Environmental Affairs<br>5. ***Greenwashing*** is creating a positive green association for non-green products |



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| **PPT 2.43** | I. Company's Responsibility to Their Communities<br>1. Donations to local and national charities<br>2. Volunteer support of local causes |
| **PPT 2.44** | V. Unemployment<br>A. Unemployment, while an economic issue, carries ethical implications<br>B. Some companies refuse to hire unemployed workers due to lack of experience rather than hiring and then training them<br>C. Factory closures are seen as unethical because it contributes to unemployment<br>D. Protesters say unemployment leads to the growing gap between rich and poor |

| LO 2-6 | Evaluate the ethics of a business's decision. | Key Terms: |
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| **PPT 2.45** | VI. Solve the Dilemma—Customer Privacy<br>A. Checkers Pizza was one of the first to offer home delivery service, with overwhelming success<br>B. Major pizza chains soon followed suit, taking away Checkers's competitive edge<br>C. Checkers's founder, Jon Barnard, needed a new gimmick to beat the competition<br>1. Developed a computerized information database that would make Checkers the most efficient competitor and provide insight into consumer buying behavior<br>2. Telephone customers were asked their phone number, if they had ordered before, their address and previous order information came up on the computer screen |
| **PPT 2.46** | D. The new system was successful:<br>1. After 3 months, Barnard decided to give an award to the family that ate the most Checkers pizza<br>2. As Barnard began to plan for the event, however, he began to think that maybe the family might not want all the attention and publicity |



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| **PPT 2.47** | E. Discussion questions:<br>1. **What are some of the ethical issues in giving customers an award for consumption behavior without notifying them first?**<br>In such a situation, the consumption behavior of the rewarded customer is communicated to the public. It violates the right of the consumer to be informed. The company should know what the effect of this award might have on the winner: negative consequences may be as likely as positive ones.<br>2. **Do you see this as a potential violation of privacy? Explain.**<br>The publicity given to the customer violates privacy: it reveals to the public some of his or her behaviors (here, pizza eating habits). However, the family might not mind the publicity or feel like it violates their privacy. Students might have different opinions regarding the seriousness of this issue.<br>3. **How would you handle the situation if you were Barnard?**<br>Barnard should contact the family concerned and inform them that an award rewarding Checkers' best customer may be given to them if the family accepts the award. The program of the award (especially the news story associated with it) should be described in detail. If the family refuses the award, the next best customer could be contacted. |



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## ENGAGEMENT & APPLICATION (FACE-TO-FACE, ONLINE, & HYBRID LEARNING)

*Online & Hybrid Learning suggestions: Create teams of 2 to 4 in a virtual learning environment (i.e. Blackboard, Moodle, Canvas). Post questions by utilizing a group assignment option in the virtual learning environment. Have each team work collaboratively to create one document for submission.*

*Face-to-Face Learning suggestions: Create teams of 2 to 4 to work collaboratively with one another. Have teams select a leader to share results with class.*

*Both options will create effective teambuilding skills for students.*

### *BOXED TEXT DISCUSSION QUESTIONS WITH SUGGESTED ANSWERS*

### ENTER THE WORLD OF BUSINESS *Mars M&Ms: Less Sugar for Your Sweet Tooth*

Mars, Inc. wants people to watch their sugar intake, even though it specializes in chocolate candies like Snickers and M&Ms. It supports a government proposal that would require food manufacturers to include measurements for added sugar on food labels. Most food manufacturers oppose the proposed measure. However, Mars not only supports the measure but also supports additional recommendations that daily sugar consumption should not exceed 10 percent of an individual's diet. Mars, Inc. demonstrates corporate citizenship by prioritizing the health of consumers.

1. **Which stakeholders are likely to benefit from Mars, Inc.'s decision to support the labeling of added sugar? Which stakeholders will likely see disadvantages?**

   Consumers are likely to see added benefits from Mars, Inc's decision to support the labeling of added sugar because this labeling will allow them to make more informed decisions regarding sugar consumption. It could help Mars develop advantageous relationships with regulators who support the initiative. Other chocolate companies are likely to see disadvantages because having to label added sugar will cost both time and resources. It might also dissuade consumers from purchasing their products if the consumers believe the products contain too much excess sugar.

2. **Does Mars, Inc. have a social responsibility to help curb excess sugar consumption among its customers even if it might cause it to sell less candy?**

   Student responses may vary. Some students might argue that Mars's greatest responsibility is to its owners. Therefore, it should be focused on making the most profit. With this view taking actions that might result in lost candy sales would not be socially responsible. They might also point out that if Mars loses lots of money as a result of this initiative, it might result in layoffs. Students who believe that Mars, Inc. does have a social responsibility to curb excess sugar consumption may argue that while Mars has responsibility to its owners, it also sells a product that could be harmful to consumer health if eaten too much or too frequently. Therefore, they may argue that taking account of consumer health is the most socially responsible action even if it results in fewer candy sales.



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3. **Will labeling the amount of sugar in candy curb excess sugar consumption?**

   Student answers will vary. Some might agree that it might curb excess sugar consumption somewhat because it will enable customers to make more informed choices about what they eat. They can avoid foods that have too much sugar. Others might point out that most consumers likely know candy is unhealthy even without labels, and yet they still choose to consume large amounts. These types of consumers may be less likely to change their behavior patterns even if labeling is introduced.

## ENTREPRENEURSHIP IN ACTION *Beautycounter Is Lathered Up about Social Responsibility*

Gregg Renfrew founded Beautycounter after watching Al Gore's documentary "An Inconvenient Truth." The documentary inspired her to replace all the products in her house that could harm humans or the environment. However, when it came to her beauty products, she could find no nontoxic substitutes that were of high quality. This prompted her to found Beautycounter. Renfrew and her team were able to develop products that used nontoxic ingredients without sacrificing quality. The company has adopted a "never" list for certain chemicals in which the organization promises never to use these chemicals in its products. Beautycounter is also certified as a B corporation, a third-party certification showing that it strives to adhere to the highest standards of accountability and transparency.

1. **How did concern for social responsibility and sustainability lead Gregg Renfrew to start her own company?**

   Gregg Renfrew was inspired by the documentary "An Inconvenient Truth" to get rid of all products in her house that could cause harm to humans or the environment. However, she could find no nontoxic beauty products that were of high quality. Her concern for having quality beauty products that would not harm the environment led her to found Beautycounter, an organization that sells products that use nontoxic ingredients without sacrificing quality.

2. **How is Beautycounter transparent with its customers about the ingredients of its products?**

   Beautycounter developed a "never" list of chemicals in which it promises never to use them in its products. Customers can be reassured that Beautycounter products will be devoid of any of the chemicals on the list. It also registered as a B corporation, which assures customers that it adheres to the highest standards of accountability and transparency.

3. **As society becomes more health conscious, will Beautycounter be able to maintain its competitive advantage?**

   Student answers will vary. Beautycounter likely has a competitive edge because it has first-mover advantages. It was one of the first companies to develop nontoxic beauty products that were high in quality. On the other hand, as society favors more health-conscious and sustainable products, competitors will likely enter the market to take advantage of this growing trend. Competition will heat up for Beautycounter. It will have to continually innovate if it wants to stay ahead.



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## CONSIDER ETHICS AND SOCIAL RESPONSIBILITY *Come Fly with Me: Or Not?*

Although pet owners are often willing to pay extra to allow their pets to fly with them on the plane, this is causing trouble for other passengers. Some passengers have pet allergies, and while they can call the airline ahead of time to make special arrangements, most fail to do so. Pets often get unruly on flights as well. Pet owners sometimes receive inconsistent treatment—sometimes they are thrown off the flight when their pets are unruly or have an accident, and other times they are not. Finally, the safety of pets is another issue. Currently, there is only one firm that provides safety equipment for pets on flights.

1. **How are stakeholders impacted by allowing some passengers to bring pets on board?**

   Stakeholder experiences are likely to differ based on the situation. Passengers with pets are likely to benefit because they can bring their beloved animals with them. Airlines can benefit due to the higher fees charged—American Airlines, for instance, charges an extra $125 for first-class passengers to take their pets onboard with them. However, other passengers may suffer when the pets are unruly or if they have allergies and are forced to sit close to pets. Airline employees on the flight may also suffer from unruly pets, as demonstrated in the situation where the pit bull ran into the cockpit and startled the pilot.

2. **Because pets supply some passengers with emotional support, could airlines be criticized for denying passengers access to their pets while traveling?**

   It is possible airlines might be criticized for denying passengers access to their pets when traveling if these pets are needed for emotional support. Airlines could possibly adopt policies to deal with this situation. For instance, they might require proof that the animal is a service animal and is actually required for emotional support.

3. **Is it fair that some passengers with pets are treated differently than others?**

   Nearly all students are likely to agree that this is not fair. While consumers might be treated differently based on the type or size of pet, inconsistent policies that allow one passenger to bring his or her pet onboard—especially when that pet is unruly—while denying another the same access is unfair. There should be policies in place that provide guidance for how a particular airline should handle this situation.



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## GOING GREEN *Cloud Computing at Amazon: Green or Red?*

Amazon has been criticized for its lack of environmental transparency. The reason is that the company has not disclosed information about the energy consumption of its cloud computing platform, Amazon Web Services (AWS). Stakeholders are increasingly demanding information about company consumption behaviors as concerns over sustainability rise. Many businesses are investing in renewable energy, and Amazon is no exception. It claims its AWS is more energy-efficient than rivals. However, Greenpeace questions these claims because Amazon has not provided specific information to back it up. Nineteen AWS clients signed a letter calling for Amazon to be more transparent about its energy consumption.

1. **Is energy usage at AWS an ethical issue?**

   Many stakeholders perceive energy usage at AWS and the fact that Amazon will not disclose information on its consumption as an ethical issue. Stakeholders are increasingly demanding information to make sure that they are making more sustainable purchases.

2. **From a social responsibility perspective, who are Amazon's most important stakeholders as they relate to AWS energy usage?**

   From this perspective, the most important stakeholder is likely environmental stakeholders including consumers and regulators (environmentalists). Environmental stakeholder concerns are why consumers and businesses are demanding more information about AWS energy usage. Energy usage can harm the environment, which in turn harms people, animals, plants, and other organisms.

3. **From a societal and political perspective, will Google have a competitive advantage if Amazon continues refusing to release information about its AWS energy consumption?**

   More than likely Google will have a competitive advantage if Amazon continues refusing to release information about its AWS consumption. How much of an advantage is unclear. However, it is obvious that society and governments are more concerned with sustainability and how corporate behaviors will impact the planet. By releasing information desired by businesses and consumers, Google is likely to maintain better relationships with its customers and government officials.

## 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.



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## *END OF CHAPTER TEACHING RESOURCES*

### CHECK YOUR PROGRESS

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.

**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 9). 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



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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.

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:* The Environmental Protection Agency discovered that Volkswagen had been installing defeat devices in its diesel vehicles to fool regulators during emissions testing. The defeat device was able to detect when the vehicle was being tested for emissions and caused the vehicle to operate at less than maximum capacity so it would pass the test. In reality, on the road the vehicles gave off many times the allowable limit of emissions. This caused a massive recall for VW, a major loss in reputation, and likely fines from governments that had been deceived by VW.



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Potential ethical issues include fairness and honesty. Employees at VW purposefully installed the defeat devices to fool regulators, a dishonest activity used to increase sales of its vehicles. It also was dishonest with dealers and consumers. VW released advertising promoting the environmental benefits of its vehicles, when it reality its emissions far surpassed accepted standards. There was likely insufficient communication inside the company since the misconduct went on for so long unchecked. VW also neglected its legal and environmental responsibilities. Its use of defeat devices to fool regulators violated laws. Additionally, it neglected its responsibilities to the environment by developing vehicles that heavily polluted the environment with its high emissions. In this example, students might assume that certain employees at VW were more concerned with short-term gains than long-term viability. Some proposed actions would have been to spend longer periods of time developing diesel vehicles that did meet emissions standards. Also, those that found out about the misconduct could have become whistleblowers and alerted authorities to the deception before the situation worsened.

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 *Making Decisions about Ethical Issues*

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.*

### Solve the Dilemma: *Customer Privacy*

Refer to LO 2-6, PPT 2.45, 2.46, & 2.47

### 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.

### SEE FOR YOURSELF
### WARBY PARKER: AN AFFORDABLE WORLD VISION
***Case Overview***

Eyewear firm Warby Parker incorporates social responsibility into its business model. When the founders first conceived of a firm that would sell affordable eyewear, they did not even make it to the final round of their school's business plan competition. Nearly a decade later Warby Parker had sold its 1 millionth pair of glasses. The inspiration for the firm occurred when the founders realized that one company has a near



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monopoly on the optical industry, giving it almost complete control over prices. Warby Parker wanted to sell eyewear at affordable prices. Glasses are manufactured in-house. Initially, they were only sold on the Internet. This allowed Warby Parker to sell designer-style eyeglasses for as little as $95 each.

Warby Parker is partnered with the nonprofit Visionspring to provide access to affordable eyewear to those in need in developing countries. For each pair of glasses sold, Warby Parker donates money for Visionspring to source a pair of glasses. Visionspring then partners with entrepreneurs—many of them women—to sell the glasses to those with vision problems in their respective countries for about $4 a pair.

Warby Parker is living proof that a company can be socially responsible and profitable. Although it started out as an online-only firm, Warby Parker has since opened 27 retail locations and is valued at $1.2 billion. Since sight is crucial to many trade jobs, Warby Parker is contributing to economic development by enabling those in developing countries to gain access to eyewear.

1. **Describe Warby Parker's ethical vision in selling eyeglasses?**

   Warby Parker's ethical vision is to provide eyewear to consumers at affordable prices. It wants the organization to be characterized by integrity with a customer focus. Additionally, Warby Parker desires for its business model to contribute to economic development and help struggling consumers in other countries. Its donation of money to Visionspring for every pair of glasses sold allows it to increase access to vision for consumers in developing countries that could not normally afford eyewear.

2. **How does Warby Parker integrate social responsibility into its business?**

   Warby Parker has integrated a model that for every pair of glasses sold, it will donate money to the nonprofit Visionspring to source a pair of glasses to sell to someone in need in other parts of the world.

3. **Why does Warby Parker charge $4 to those in need of eyeglasses in developing countries?**

   Warby Parker and Visionspring do not donate the glasses directly; rather, local women are trained to sell the glasses for $4. These opportunities for employment empower women and help spur economic development in the region.

## 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 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.



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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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## *BONUS TEACHING RESOURCES*

### 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.

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


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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).

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.


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## 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. 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?**

## VIDEO CASE:
## The Challenge of Building Trust in Business

Corporate scandals, a growing awareness of environmental issues, and the last global recession have greatly altered the public's perspective of corporate America. Gone are the days in which consumers blindly trusted company publicity and rhetoric. The public's trust in business has been shattered, and many companies have a long way to go to earn it back.



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The Arthur Page Society and the Business Roundtable Institute for Corporate Ethics are dedicated to corporate accountability and ethics. The organizations released a study addressing Americans' mistrust of business and how corporations can begin to win back the hearts and minds of consumers. The study, entitled "The Dynamics of Public

Trust in Business— Emerging Opportunities for Leaders," shows that public trust in business has reached a low point. As the economy begins to recover, trust in business has increased. However, trust of business continues to be a serious challenge for businesses to overcome. This presents major difficulties for businesses because trust is the glue that holds relationships together.

A major issue appears to be the imbalance of power. Many consumers are still angry over business scandals and unemployment rates while corporate management still makes huge profits. The government defended corporate bailouts as a way to keep large companies from failing (which could have worsened the recession). Most of the money has since been paid back, and the government has made a profit. Unemployment has decreased in the last few years, although among young people it is still 15 percent. It is believed that if youth unemployment returned to pre-recession rates, the federal government would recoup $7.8 billion.

Distrust of business is not limited to the United States. According to the Edelman Trust Barometer, 54 percent of global consumers indicate that they trust business. Financial service institutions and banks have the lowest rankings in consumer trust worldwide, at 51 percent. More recent scandals at J.P. Morgan Stanley, HSBC, and British financial services firm Barclays continue to keep trust in this sector low.

Although the Arthur Page Society and the Business Roundtable see their report as a way to start a national dialogue, the report does offer a series of suggestions for businesses. First and foremost, the balance of power must be equalized. Companies must focus on creating mutual value and leaders must try to gain and retain trust. The study also suggests that corporations create quality goods/services, sell goods/services at fair prices, create and maintain positive employment practices, give investors a fair return, remain active in social responsibility, and create transparency.

Most firms have not been involved in scandals or misconduct. In fact, most companies operate in an ethical and socially responsible manner. Unfortunately, the public sees reports of misconduct in a few businesses and generalizes the misconduct to all businesses. Nevertheless, companies need to communicate their values and maintain responsible conduct. Another example involves the growing public concern regarding how businesses affect the environment—investors want details on a business's impact and what that business is doing to be more sustainable. As the public fights to make its desires known regarding business behavior, businesses that sincerely want to help the world are receiving some help. Maryland, Vermont, New York, California, and three other states have made "benefit corporations" legal. These corporations must make their values public, report yearly on their socially beneficial behavior, and agree to third-party audits of their social responsibility actions. Acquiring this designation requires the approval of more than half a company's shareholders. Companies may also



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establish themselves as B corporations, which certifies their socially responsible focus. It is entirely possible for businesses to regain public trust, but it means a change in values for many businesses in today's corporate America.

***Sources:***

"Who Really Pays for CSR Initiatives," Environmental Leader, February 15, 2008, www.environmentalleader.com/2008/02/15/who-really-paysfor-csr-initiatives/ (accessed April 7, 2014); "Global Fund," www.joinred.com/globalfund (accessed April 7, 2014); Reena Jana, "The Business of Going Green," BusinessWeek Online, June 22, 2007, www.businessweek.com/stories/2007-06-22/thebusiness-benefits-of-goinggreenbusinessweek-business-newsstock-market-and-financial-advice (accessed April 7, 2014)

***Building Trust in Business Video Case Discussion Questions***

**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.

**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.



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## TERM PAPER OR PROJECT TOPIC

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.

   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.

2. 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



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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.

3. "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.

4. 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.

5. 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.

6. 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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**Written Communication Rubric** (0-17: Does not meet standard. 18 or above: Meets standard)

| | 1: Beginner | 2: Novice | 3: Proficient | 4: Advanced | Score |
|---|---|---|---|---|---|

Scoring Guide for Writing

| Knowledge of Conventions | Clarity and Coherence | Rhetorical Choices | |
|---|---|---|---|
| In addition to meeting the requirements for a "3," the writing is essentially error-free in terms of mechanics. Models the style and format appropriate to the assignment. | In addition to meeting the requirements for a "3," writing flows smoothly from one idea to another. The writer has taken pains to assist the reader in following the logic of the ideas expressed. | In addition to meeting the requirements for a "3," the writer's decisions about focus, organization, style/tone, and content made reading a pleasurable experience. Writing could be used as a model of how to fulfill the assignment. | **4 - Accomplished** |
| While there may be minor errors, the paper has been carefully proofread. Appropriate style and format are used consistently throughout the writing sample. Demonstrates thoroughness and competence in documenting sources; the reader would have little difficulty referring back to cited sources. | Sentences are structured and words are chosen to communicate ideas clearly. Sequencing of ideas within paragraphs and transitions between paragraphs make the writer's points easy to follow. | The writer has made good decisions about focus, organization, style/tone, and content to communicate clearly and effectively. The purpose and focus of the writing are clear to the reader, and the organization and content achieve the purpose well. Writing follows all requirements for the assignment. | **3 - Competent** |
| Frequent errors in spelling, grammar (such as subject/verb agreements and tense), and sentence structure distract the reader. Writing does not consistently follow appropriate style and/or format. Source documentation is incomplete. It may be unclear which references are direct quotes and which are paraphrased. | Sentence structure and/or word choice sometimes interfere with clarity. Needs to improve sequencing of ideas within paragraphs and transitions between paragraphs to make the writing easy to follow. | The writer's focus, organization, style/tone, and/or content sometimes interfere with clear, effective communication. The purpose of the writing is not fully achieved. All requirements of the assignment may not be fulfilled. | **2 - Developing** |
| Writing contains numerous errors in spelling, grammar, and/or sentence structure which interfere with comprehension. Fails to demonstrate thoroughness and competence in citing sources. | Sentence structure, word choice, lack of transitions and/or sequencing of ideas make reading and understanding difficult. | The writer's focus, organization, style/tone, and/or content interfere with communication. The purpose of the writing is not achieved. Requirements of the assignment have not been fulfilled. | **1 - Beginning** |

**Written Communication Rubric** (0-13: Does not meet standard. 14 or above: Meets standard)

| | 1: Beginner | 2: Novice | 3: Proficient | 4: Advanced | Score |
|---|---|---|---|---|---|
| **Purpose Statement** | Ill-defined ideas or statement of purpose. | Vague or inconsistent statement of purpose. | Expresses a clear, coherent thesis statement. | Creative, insightful and/or skillfully designed thesis statement. | |
| **Organization and Development** | Inadequate organization and/or development. | Some organization evident, but inconsistent. | Connects ideas within document and to other sources and ideas; points are logically developed and flow logically from one idea to the next. | Effective organization contributes to full development of written presentation. | |
| **Support for Ideas** | Little or no evidence of research. Inappropriate or insufficient details to support thesis. | Some evidence of research. Includes some, but not adequate support for arguments. | Evidence of thorough research. Cites a sufficient number of sources (depending on topic). Advances argument with sound evidence and references. | Expertly advances argument with well-researched evidence and documentation. | |
| **Understanding of Topic** | Demonstrates little or no understanding of topic. | Demonstrates some understanding of topic; does not make connections among ideas. | Moves beyond surface understanding; demonstrates facility with relevant knowledge. | Demonstrates disciplinary understanding and interconnections; makes links that suggest discovery of new information or new ways of relaying information. | |
| **Use of Grammar** | Multiple errors in grammar, sentence structure, or spelling. | Occasional errors in grammar, sentence structure, or spelling. | Uses correct grammar, sentence structure, and spelling throughout document. | Readability enhanced by competence in language use, style, and phrasing. | |
| | | | | **Total Points:** | |

**Chapter 2 Business Ethics and Social Responsibility**

**Corporate Code of Conduct/Ethics**

| Exercise: | **Compose a Corporate Code of Conduct/Ethics statement for company.** |
|---|---|
| **Learning Objectives:** | **2-3** Specify how businesses can promote ethical behavior. |
| **Instructor Prep Time:** | 30 - 45 minutes |
| **Supplies:** | N/A |
| **Class Type:** | Face-to-Face, Hybrid, and Online |
| **Ideal Class Size:** | N/A |
| **Set-up Time:** | |
| Face-to-Face Hybrid | In-class/hybrid 30 minutes to create teams, explain activity, and permit students the opportunity to interact. |
| Online | Post information and create teams. |
| **Student Work Time :** | Allow all teams 1 week to complete activity. |
| **Wrap-up Time:** | |
| Face-to-Face Hybrid | 30 minutes to discuss "takeaways" |
| Online | Online chat room – 1 to 2 days to post |
| **Evaluation Suggestions:** | See attached scoring guide for writing |

**Overview:**

How to make the exercise a success

**Set-up:**

- Start off this exercise by reciting a list of companies/individuals who have engaged in unethical behavior. Possible suggestions to include on the list: Bernie Madoff, Volkswagen, FIFA, Valeant, Tyco, and Lance Armstrong.
- Ask the students "what do these companies or individuals all have in common?"
- From there, flow into the discussion of a corporate code and ethics.
- The instructor needs to explain that there is no formal definition of a corporate code of conduct. The Corporate Code refers to a company's policy statement that defines ethical standards and values for its conduct and should give direction and guidance to its employees. Corporate codes of conduct are completely voluntary, and there is great variation in the statements.
- Typical student questions deal mostly with logistics:
    - How long should the code of ethics run?
    - How is the project going to be graded?
    - How much time do we have to complete the assignment?
    - How am I going to collaborate with the other students to complete the assignment?

**Student Instructions:**

- Student steps for the activity:

1. Conduct an Internet search on "How to Create a Code of Ethics for a Business".

2. Examples of respected company's Code of Conduct/Ethics can be found on the following companies' websites:
    - Amazon
    - Apple
    - Levi Strauss & Co
    - Google
    - Coca-Cola
    - Microsoft
    - Facebook
    - Kraft
    - Verizon
    - Proctor and Gamble
    - Zappos

3. You will be assigned to teams of 5 - 7 students to create a fictional company. Each team composes a **Corporate Code of Conduct/Ethics** statement for its company.

    - Working with your team, create your company's social responsibility/code of ethics statement.

    - Areas for consideration:

        - Diversity

        - Customers

        - Stakeholders

        - Employees

        - Organizational behavior

        - Individual behavior

        - Other areas

    - Remember, this should reflect your company's values and beliefs. Once your group finishes its statement, please post to the course website. Come prepared to talk about the statements the next class period.

4. Your team will finish the project as a "virtual team" collaborating and posting the updated version on the course discussion board.

5. You will review each team's code discussing whether the plan is realistic, how it would be enforced, would you want to work for a company that has such a code of conduct, etc. Post your comments on the class discussion board by your instructor's posted deadline.

**Wrap-up/"Takeaways" suggested topics:**

- Impact of a code of ethics on a company's culture, profitability, etc. (i.e., Zappos is a great example),
- Glaring omissions in the codes created by each team,

- Discussion of how company codes have changed over the last twenty years,
- The possible difficulties in enforcing a company's code, and
- Could a code prevent some of the recent corporate scandals.

In-person/hybrid classes: Wrap-up and discussion—allot 30 minutes.

Online: Instructor comments posted on the discussion page or a short "wrap-up" video (mini-lecture) of less than 20 minutes posted to the course platform.

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- Working with your team, create your company's social responsibility/code of ethics statement.
- Areas for consideration:
  - Diversity
  - Customers
  - Stakeholders
  - Employees

# ETHICS/SOCIAL RESPONSIBLILTY

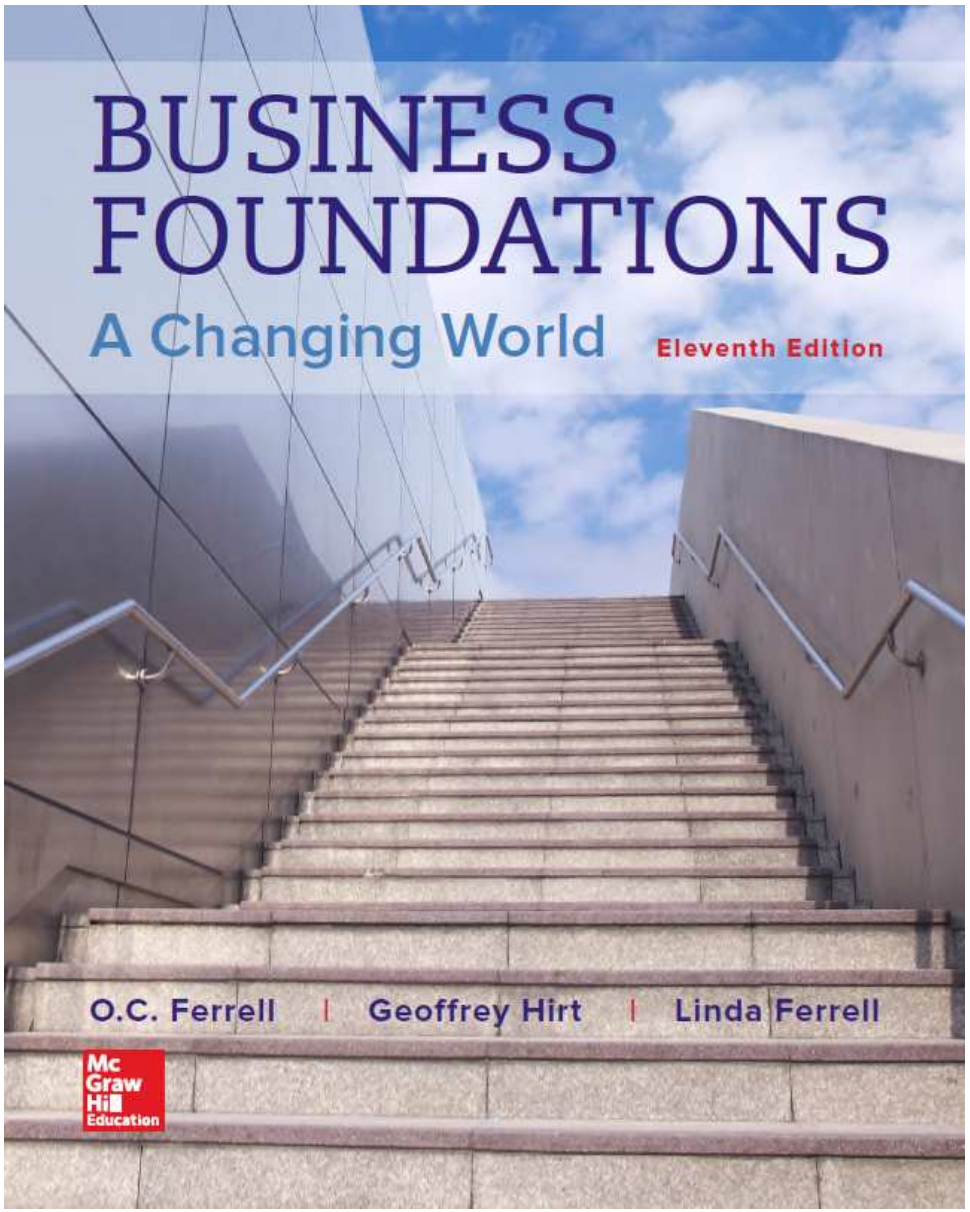
- Organizational behavior
- Individual behavior
- Other areas

Remember this should reflect your company's values and beliefs. Once your group finishes its statement, please post to BB. Come prepared to talk about the statements, the next class period.

# ETHICS/SOCIAL RESPONSIBLILTY CONTINUED

# Part 1
# Business in a Changing World

## *Chapter 2*

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# Part 1

## CHAPTER 1

The Dynamics of Business and Economics

## CHAPTER 2

**Business Ethics and Social Responsibility**

## 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.

**LO 2-6** Evaluate the ethics of a business's decision.



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# Business Ethics

## Business Ethics

- Principles and standards that determine acceptable conduct in business
- Acceptable behavior determined by
  - ✓ The organization
  - ✓ Customers
  - ✓ Competitors
  - ✓ Government regulators
  - ✓ Interest groups
  - ✓ 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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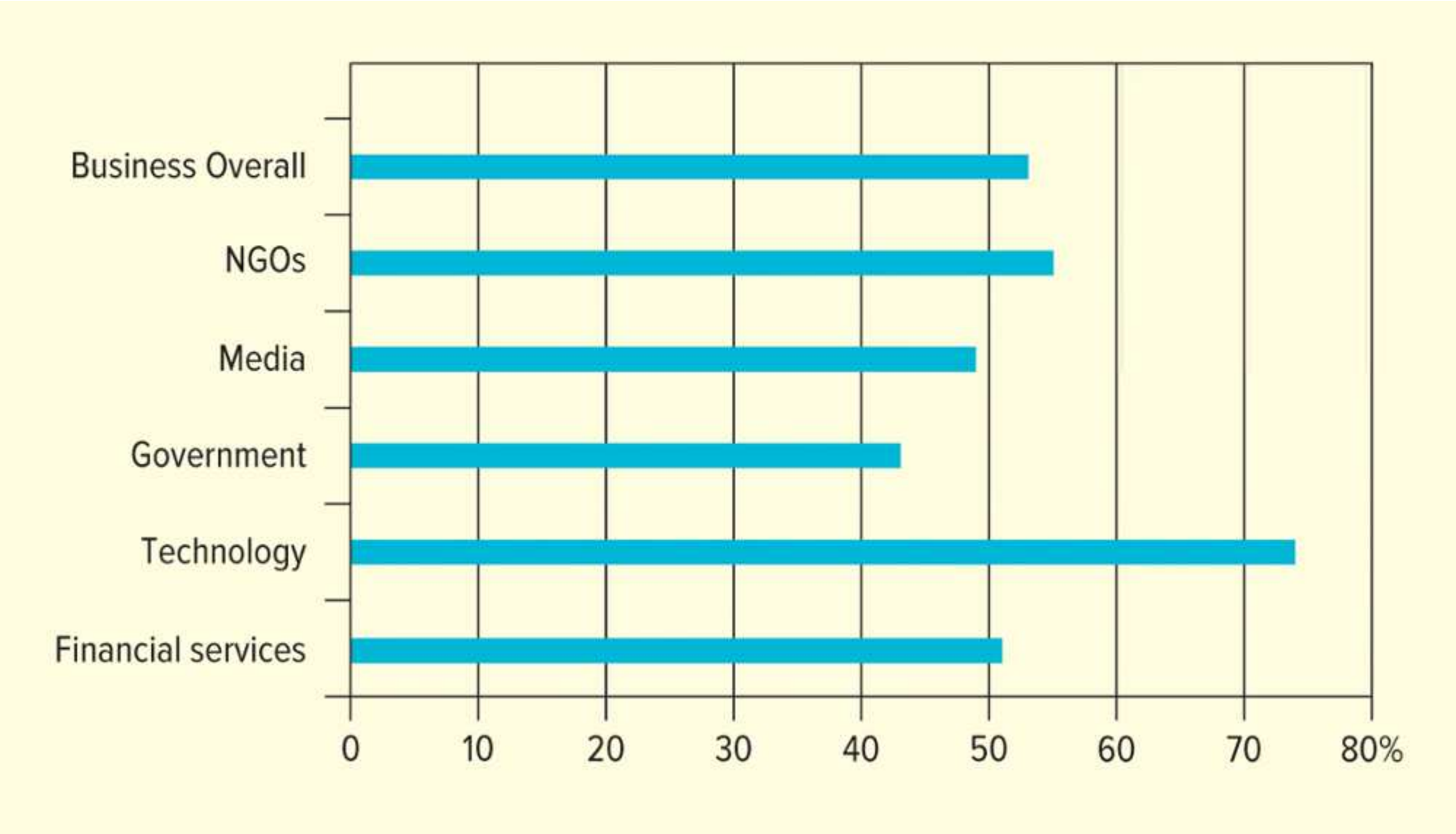
# Global Trust in Different Institutions




*Source: Edelman Trust Barometer, "2016 Edelman Trust Barometer," http://www.edelman.com/insights/intellectual-property/2016-edelman-trust-barometer/global-results/ (accessed February 23, 2016).*

Jump to Appendix 1 for long image description



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# Tone at the Top

## Managers

- Must show a strong commitment to ethics and compliance. This “tone at 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 an 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 | Social issues, Consumer Bill of Rights, disadvantaged consumer, environmental issues, product safety |
| 1970s | Business ethics, social responsibility, diversity, bribery, discrimination, identifying ethical issues |
| 1980s | Standards for ethical conduct, financial misconduct, self-regulation, codes of conduct, ethics training |
| 1990s | Corporate ethics programs, regulation to support business ethics, health issues, safe working conditions, detecting misconduct |
| 2000s | Transparency in financial markets, corporate misconduct, intellectual property, regulation of accounting and finance, executive compensation, identity theft |



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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

## Legal and Ethical Issues

- Not limited to for-profit organizations
  - ✓ Government officials and politicians
  - ✓ Sports organizations
- Can affect an organization's ability to build relationships



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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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# Bribery 1 of 2

**Bribery—**Payments, gifts or special favors intended to influence the outcome of a decision

Ralph Lauren reported that its subsidiary had bribed foreign officials in Argentina. Because it took quick action to address the misconduct, the company did not face charges.

© NC1 WENN Photos/Newscom



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# Bribery 2 of 2

**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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# Organizational Misconduct in the United States

| Misconduct Facts | Percentages |
|---|---|
| Observed misconduct | 30% |
| Abusive behavior | 22% |
| Lying to stakeholders | 22% |
| Conflict of interest | 19% |
| Pressure to compromise standards | 22% |
| Report observed misconduct | 76% |
| Experience retaliation for reporting | 53% |

*Source:* Ethics and Compliance Initiative, *2016 Global Business Ethics Survey™: Measuring Risk and Promoting Workplace Integrity* (Arlington, VA: Ethics and Compliance Initiative, 2016), p. 43.



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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 such as bullying can lead to low morale, higher turnover, and increased absenteeism.

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# Actions Associated with Bullies

1. Spreading rumors to damage others
2. Blocking others' communication in the workplace
3. Flaunting status or authority to take advantage of others
4. Discrediting others' ideas and opinions
5. Using e-mail to demean others
6. Failing to communicate or return communication
7. Insults, yelling, and shouting
8. Using terminology to discriminate by gender, race, or age
9. Using eye or body language to hurt others or their reputation
10. Taking credit for others' work or ideas

Source: © O. C. Ferrell, 2017.



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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

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

© Bloomberg/Contributor/Getty Images

TurnItIn is an Internet service that allows teachers to determine if their students have plagiarized content.



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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 untarnished?
- 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 Influence

- 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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# 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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# Why a Code of Ethics is Important

1. Alerts employees about important issues and risks to address.
2. Provides values such as integrity, transparency, honesty, and fairness that gives the foundation for building an ethical culture.
3. Gives guidance to employees when facing gray or ambiguous situations or ethical issues that they have never faced before.
4. Alerts employees to systems for reporting or places to go for advice when facing an ethical issue.
5. Helps establish uniform ethical conduct and values that provides a shared approach to dealing with ethical decisions.
6. Serves as an important document for communicating to the public, suppliers, and regulatory authorities about the company's values and compliance.
7. Provides the foundation for evaluation and improvement of ethical decision making.



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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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# Social Responsibility Requirements

| 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 College Achievement Plan that offers eligible employees full tuition to earn a bachelor's degree in partnership with Arizona State University. |



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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

1. Social responsibility rests on stakeholder engagement and results in benefits to society and improved firm performance.
2. Businesses are responsible because they have the financial and technical resources to address sustainability, health, and education.
3. As members of society, businesses and their employees should support society through taxes and contributions to social causes.
4. Socially responsible decision making by businesses can prevent increased government regulation.
5. Social responsibility is necessary to ensure economic survival: If businesses want educated and healthy employees, customers with money to spend, and suppliers with quality goods and services in years to come, they must take steps to help solve the social and environmental problems that exist today.



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# The Arguments Against Social Responsibility

1. It sidetracks managers from the primary goal of business—earning profit. The responsibility of business to society is to earn profits and create jobs.
2. Participation in social programs gives businesses greater power, perhaps at the expense of concerned stakeholders.
3. Does business have the expertise needed to assess and make decisions about social and economic issues?
4. Social problems are the responsibility of the government agencies and officials, who can be held accountable by voters.
5. 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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# Sustainability Issues 1 of 2

## Pollution

- Water – society is demanding clean water
- Air – acid rain and global warming
- Land – garbage, strip mining and poor forest conservation

© Sergio Pitamitz/Getty Images

Some companies are turning toward wind power as an alternative form of energy to save on costs and reduce carbon emissions.



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# Sustainability Issues 2 of 2

## Alternative Energy

- Reducing carbon emissions forces alternative energy sources

© hans engbers/Alamy

Electric vehicles are growing in popularity.



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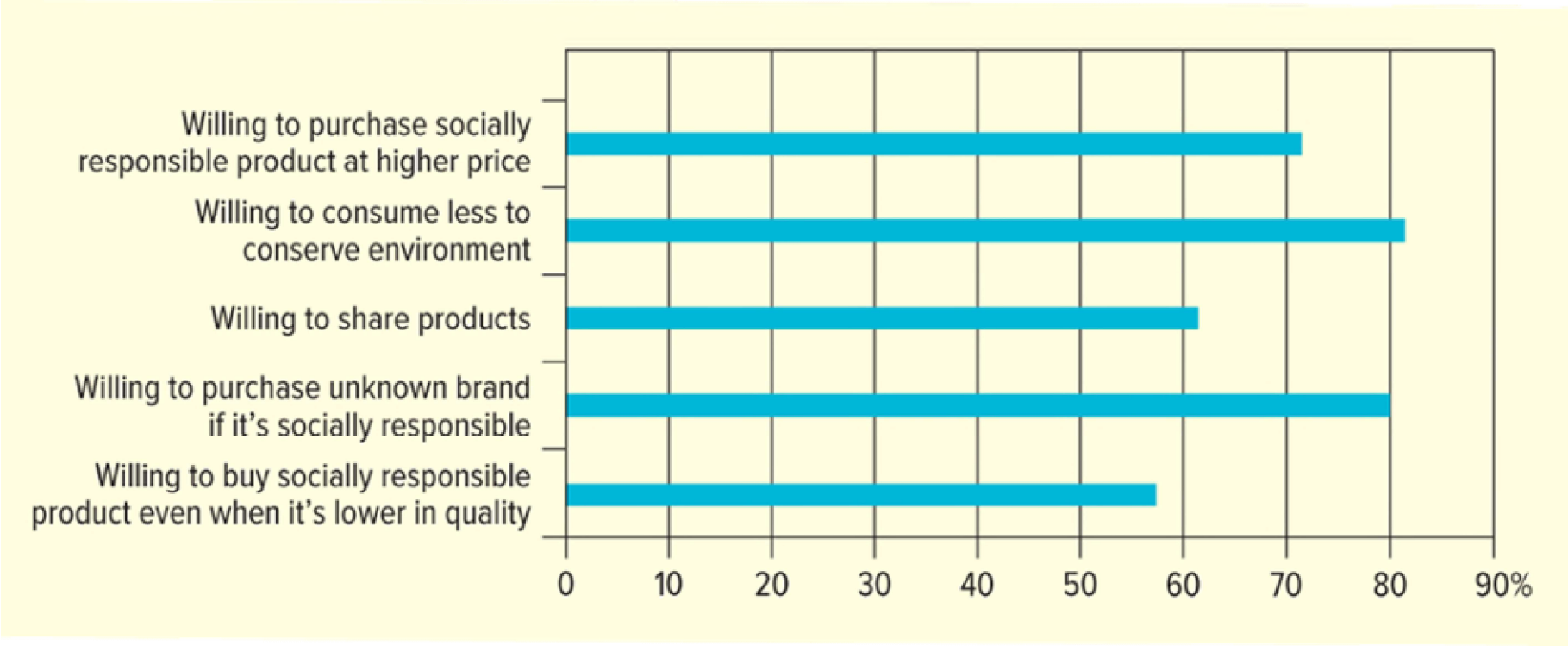
# Consumer Likelihood to Personally Address Social Responsibility Issues




*Online survey conducted by Cone Communications and Ebiquity of 9,709 adults in nine of the largest countries in the world by GDP.*

*Source: Cone Communications and Ebiquity, "2015 Cone Communications/Ebiquity Global CSR Study," http://www.conecomm.com/stuff/contentmgr/files/0/2482ff6f22fe4753488d3fe37e948e3d/files/global_pdf_2015.pdf (accessed February 23, 2016).*

Jump to Appendix 2 for long image description



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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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# Solve the Dilemma (1 of 3)
## *Customer Privacy*

- ✓ Checkers Pizza was one of the first to offer home delivery service, with overwhelming success
- ✓ Major pizza chains soon followed suit, taking away Checkers' competitive edge
- ✓ Needed a new gimmick to beat the competition
  - Developed a computerized information database that would make Checkers the most efficient competitor and provide insight into consumer buying behavior
  - If telephone customers had ordered before, their address and previous order information came up on the computer screen



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# Solve the Dilemma (2 of 3)
## *Customer Privacy*

### The new system was successful

- After 3 months, Checkers founder and owner Jon Barnard decided to give an award to the family that ate the most Checkers pizza
- As Barnard began to plan for the event, however, he began to think that maybe the family might not want all the attention and publicity



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# Solve the Dilemma (3 of 3)
## *Customer Privacy*

### Discussion Questions

- What are some of the ethical issues in giving customers an award for consumption behavior without notifying them first?
- Do you see this as a potential violation of privacy? Explain.
- How would you handle the situation if you were Barnard?



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# Discussion

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



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# Appendix 1:
# Global Trust in Different Institutions

Business overall: 53%

NGOs: 55%

Media: 49%

Government: 43%

Technology: 75%

Financial services: 51%



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# Appendix 2: Consumer Likelihood to Personally Address Socially Responsibility Issues

Willing to purchase socially responsible product at a higher price: 72%

Willing to consume less to conserve environment: 82%

Willing to share products: 62%

Willing to purchase unknown brand if it's socially responsible: 80%

Willing to buy socially responsible product even when it's lower in quality: 58%



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