

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 decisions.

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. It 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. |

LECTURE OUTLINE AND NOTES

(PPT notations below refer to the Premium Content slides.)

PPT 2.4 *Enter the World of Business: News Corp.'s Culture: An Accident Waiting to Happen*

PPT 2.5-2.6

- I. Business Ethics and Social Responsibility
 - A. **Business ethics** refers to the principles and standards that determine acceptable conduct in business organizations.
 - 1. Personal ethics, on the other hand, relates to an individual's values, principles, and standards of conduct.
 - 2. Good ethics leads to trust, and in business, trust is the glue that holds the company-customer relationship together.

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- B. **Social responsibility** refers to a business's obligation to maximize its positive impact and minimize its negative impact on society.
 - C. Ethics and social responsibility are often used interchangeably, but they do not mean the same thing:
 - 1. Business ethics refers to an individual's or work group's decisions that society evaluates as right or wrong.
 - 2. Social responsibility is a broader concept that concerns the impact of the entire business's activities on society.

PPT 2.8

- D. The most basic ethical and social responsibility concerns have been codified by laws and regulations that encourage businesses to conform to society's standards, values, and attitudes.
 - 1. Most legal issues arise as choices that society deems unethical, irresponsible, or otherwise unacceptable.
 - 2. All actions deemed unethical are not necessarily illegal.
 - 3. Legal and ethical concerns change over time.
 - 4. Business ethics, social responsibility, and laws together act as a compliance system, requiring that businesses and employees act responsibly in society.

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- 5. Two laws having a major impact on business are the Sarbanes-Oxley Act and the Dodd-Frank Act.
 - a. The Sarbanes-Oxley Act criminalized securities fraud and stiffened penalties for corporate fraud.
 - b. The Dodd-Frank Act was passed to reform the financial industry and offer consumers protection against complex and/or deceptive financial products.

PPT 2.10

- II. The Role of Ethics in Business
 - A. Well-publicized incidents of unethical and illegal activity strengthen the public's perceptions that ethical standards and the level of trust in business need to be raised.
 - 1. Charges of misconduct often start as ethical conflicts but evolve into legal disputes when cooperative conflict resolution cannot be accomplished.
 - B. Business ethics goes beyond legal issues, and ethical conduct builds trust among

- C. individuals and in business relationships.
- D. Learning to recognize and resolve ethical issues is a key step in evaluating ethical decisions in business.

E.

PPT 2.11-2.12

D. Recognizing Ethical Issues in Business

- 1. 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.
 - a. Many issues seem straightforward but in reality are quite complex.
 - 1) One example of an ethical issue is whether the NFL hid information linking head injuries to subsequent physical damage.

PPT 2.13-2.14

- b. One of the principal causes of unethical behavior is overly aggressive financial or business objectives, but ethical issues involve all types of organizations including non-profits, government, schools, and universities.
- 2. Abusive and Intimidating Behavior
 - a. Second most common kind of ethical problem for employees.
 - b. Involves anything from physical threats, false accusations, profanity, insults, yelling, harshness, and unreasonableness to ignoring someone or simply being annoying.
 - c. Difficult to assess and manage, especially in diverse workplaces where culture and lifestyles differ.
 - d. Bullying is associated with a hostile workplace when a person or group is targeted and threatened, harassed, or abused in some way.

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- 3. **Bribes** are payments, gifts, or special favors intended to influence the outcome of a decision.
 - a. Ethics is related to the culture in which a business operates, and bribes are common in other parts of the world.
- 4. Misuse of Company Time
 - a. Theft of time is the number one area of misconduct in the workplace.
 - b. It is widely believed that the average employees “steals” 4.5 hours per week with late arrivals, leaving early, long lunch breaks, inappropriate sick days, excessive socializing, and engaging in personal activities while on the job.
 - c. All of these activities add up to lost productivity and profits for the employer.
- 5. Misuse of Company Resources
 - a. Has been identified as a leading issue of misconduct in the workplace.
 - b. Issues might include spending an excessive amount of time on personal e-mails, submitting personal expenses on company expense reports, or using the company copier for personal use.
 - c. Some companies have official policies regarding acceptable use of company resources.
- 6. Conflict of Interest

- a. Conflicts of interest exist when a person must choose whether to advance his or her own personal interests or those of others.
- b. To avoid conflicts of interest, employees must be able to separate their personal financial interests from their business dealings.
- c. Insider trading—the buying or selling of stocks by an insider who possesses material that is not public—is an example of a conflict of interest.

PPT 2.16 *Corruption Perceptions Index—23 countries are perceived as less corrupt than the U.S.*

PPT 2.17-2.19

E. Fairness and Honesty

1. Fairness and honesty are at the heart of business ethics and relate to the general values of decision makers.
2. Businesspeople are expected not only to obey the law, but also not to harm customers, employees, or competitors through deception, misrepresentation, coercion, or discrimination.
3. Fairness in competition and disclosure of potential harm caused by products are some aspects of fairness.
4. Employees must abide by the laws and regulations, cause no harm through dishonest behavior, and use company resources honestly.
5. Employees should be aware of policies and recognize how decisions relate to ethical behavior.
 - a. Many people felt Toyota was not honest with consumers about its vehicles' accelerator problem. However, a later investigation blamed most of the crashes on driver error.
6. Communications
 - a. False and misleading advertising and deceptive selling tactics anger customers and can lead to business failure.
 - b. Truth about product safety and quality are also important to consumers.
 - c. Product labeling may raise ethical concerns and questions about basic rights of freedom of speech and expression.
7. Business relationships
 - a. Behavior of businesspersons toward customers, suppliers, and others in the workplace can generate ethical concerns, including
 1. Keeping company secrets
 2. Meeting obligations
 3. Avoiding pressure to act unethically
 - b. Managers can influence employee behavior and have the responsibility to create a positive work environment that helps the organization achieve its objectives and fulfill its responsibilities.
 - c. **Plagiarism** is widespread and means taking someone else's work and presenting it as your own.

PPT 2.20

F. Making Decisions about Ethical Issues

1. It can be difficult to recognize ethical issues and may depend on the issue itself.

2. Managers tend to be more concerned about issues that affect those close to them or have immediate rather than long-term consequences.
3. Open discussion of ethical issues helps to promote trust and openness.

PPT 2.21

G. Improving Ethical Behavior in Business

1. Ethical decisions in an organization are influenced by three key factors: individual moral standards, the influence of managers and coworkers, and the opportunity to engage in misconduct.
2. Co-workers and superiors exert significant control over individual choices at work through authority and example.
 - a. If the company fails to provide good examples and standards and policies for appropriate conduct, conflict may develop and employees may base decisions on how their peers and superiors behave.
3. Useful to examine causes of conflict because many organizational issues emerge from conflict (e.g. conflict between personal moral standards and organizational standards).

PPT 2.22-2.23

4. **Codes of ethics** are formalized rules and standards that describe what a company expects of its employees.
 - a. Codes of ethics should provide guidelines and principles that can help employees achieve objectives and address risks in an acceptable and ethical way.
 - b. Codes of ethics, policies on ethics, and ethics training programs advance ethical behavior because they prescribe which activities are acceptable and which are not, and they limit the opportunity for misconduct by providing punishments for violations of standards and rules.
5. Ethics programs should include a means through which employees can report observed misconduct anonymously.
6. **Whistleblowing** occurs when an employee exposes an employer's wrongdoing to outsiders, such as the media or government regulatory agencies.
 - a. Businesses usually encourage employees to report illegal and unethical practices internally so they can take steps to remedy problems before they result in legal action or negative publicity.
 - b. To discourage retaliation against whistleblowers, the government may reward firms that encourage employees to report misconduct with reduced violations and fines when penalties do occur.
 - c. The government has established a whistleblower bounty program to reward whistleblowers a percentage of monetary sanctions over \$1 million.

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7. The current trend is to move away from legally based initiatives in organizations to cultural- or integrity-based initiatives that make ethics a part of core organizational values.
8. Firms that develop higher levels of trust function more efficiently and effectively and avoid damage to their company's reputation and product image.

PPT 2.25 *Consider Ethics and Social Responsibility: Bad Apples Can Contaminate Company Culture*

PPT 2.26

III. The Nature of Social Responsibility

- A. There are four dimensions of social responsibility: economic, legal, ethical, and voluntary.
1. Economic responsibility means earning profits, the base of the pyramid of social responsibility.
 2. Legal responsibility means complying with the law.
 3. Voluntary responsibilities are non-required activities that promote human welfare or goodwill.

PPT 2.27-2.28

- B. **Corporate citizenship** is the extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders.
- a. Involves action and measurement of how deeply the firm embraces the corporate citizenship philosophy
 - b. Then follows through by implementing citizenship initiatives
 - c. The Ethisphere Institute lists some of the World's Most Ethical Companies using corporate citizenship as part of the criteria

PPT 2.29

- C. The concept of social responsibility is not universally accepted.
- a. The main argument for social responsibility is that business helped create many of the social problems, so it should play a significant role in solving them, especially in the areas of pollution reduction and cleanup.
 - b. The main argument against social responsibility is that these programs distract from the primary goal of business – earning profits.

PPT 2.30

D. Social Responsibility Issues

1. Social responsibility is dynamic, with issues changing constantly in response to society's demands.
 - a. Research shows it is linked with improved business performance.
2. Relations with Owners and Stockholders
 - a. Businesses must first be responsible to their owners who are primarily concerned with earning a profit or a return on investment in a company.
 - b. This responsibility is more easily fulfilled in small businesses than in large businesses.
 - c. A business's responsibility to its owners and investors includes maintaining proper accounting procedures, providing all relevant information, protecting the owners' rights and investments, and maximizing the owners' investment in the firm.

PPT 2.31

3. Employee Relations
 - a. Employees expect businesses to provide them with a safe workplace, to pay them adequately for their work, and to tell them what is happening in their company.

- b. Many of the laws regulating safety in the workplace are enforced by the Occupational Safety and Health Administration (OSHA).
- c. Labor unions have also made significant contributions to achieving safety in the workplace and improving wages and benefits.
- d. A major social responsibility for business is providing equal opportunities for all employees regardless of sex, age, race, religion, or nationality.

PPT 2.32-2.34

4. Consumer Relations

- a. **Consumerism** involves the activities that independent individuals, groups, and organizations undertake to protect their rights as consumers.
 - 1) Consumer activities include writing letters to companies, lobbying government agencies, making public service announcements, and boycotting companies.
 - 2) Many of the desires of those involved in the consumer movement have a foundation in John F. Kennedy's 1962 consumer bill of rights:
 - a. The *right to safety* means that a business must not knowingly sell anything that could result in personal injury or harm to the consumer.
 - b. The *right to be informed* gives consumers the freedom to review complete information about a product before they buy it.
 - c. The *right to choose* ensures that consumers have access to a variety of products and services at competitive prices.
 - d. The *right to be heard* assures consumers that their interests will receive full and sympathetic consideration when the government formulates policy.

PPT 2.35-2.36

5. Sustainability Issues

- a. **Sustainability** means conducting personal and organizational activities in a way that allows for the long-term well-being of the natural environment, including all biological entities.
- b. Sustainability involves the assessment and improvement of business strategies, economic sectors, work practices, technologies, and lifestyles so that they maintain the health of the natural environment.
- c. Environmental protection emerged as an important issue in the 20th century.
 - 1) Home Depot has adopted eight core values as the foundation for its ethical culture, including a strong emphasis on sustainability.

PPT 2.37

d. Pollution

- 1) Water pollution results from the dumping of contaminants into water resources, oil spills, and the burial of waste and contaminants in the ground, affecting underground water supplies.

- 2) Air pollution is the contamination of the air by smoke, manufacturing pollutants, carbon monoxide, and hydrocarbons emitted by motor vehicles.
 - 3) Land pollution—which is tied directly to water pollution because many of the contaminants dumped on the land work their way into the water supply—results from the dumping of residential and industrial waste, strip mining, forest fires, and poor forest conservation.
- e. Alternative energy
- 1) Fossil fuels are problematic because of pollution, depleted stores, and political problems with countries from which they are exported.
 - 2) Alternative sources of energy include wind power, solar power, nuclear power, biofuels, electric cars, and hydro- and geothermal power.

PPT 2.38

- f. Response to environmental issues
- 1) Many companies now have a vice president of environmental affairs position
 - 2) Environmentalism can help a company reduce waste, save money, and improve its reputation
 - 3) Environmentalists are becoming concerned that some companies are merely *greenwashing*, or “creating a positive association with environmental issues for an unsuitable product, service, or practice.”
 - 4) Environmental responsibility always involves trade-offs between costs of reducing/eliminating pollution and the health threats of not doing so.
 - 5) Managers must coordinate environmental goals with social/economic ones

PPT 2.39 *Going Green: Fracking for Natural Gas: Clean Energy Solution or Environmental Catastrophe?*

PPT 2.40-2.41

- g. Community Relations
- 1) The most common way in which businesses exercise their community responsibility is through donations to local and national charitable organizations.
 - 2) Many companies encourage their employees to volunteer for charitable organizations such as Habitat for Humanity.
 - 3) Even small companies participate in philanthropy through donations and volunteer support of local causes of interest.

PPT 2.42

IV. Unemployment

- A. Many companies have become concerned about the quality of education in the United States as unemployment has become a significant problem since the financial crisis in 2008.

- B. Although most would argue that unemployment is an economic issue, it also carries ethical implications.
 - 1. Businesses have been criticized for high executive compensation, massive layoffs, factory closures, and hiring standards.
- C. On the other hand, some businesses are working to reduce unemployment.
 - 1. They donate funds, equipment, and time to help schools and provide scholarship money.
 - 2. Business is also taking more responsibility for the hard-core unemployed.

PPT 2.43 Solve the Dilemma: Customer Privacy

BOXED TEXT DISCUSSION QUESTIONS

Consider Ethics and Social Responsibility, *Bad Apples Can Contaminate Company Culture*

Unethical employees, or “bad apples,” include crab apples (bullies), sour apples (pessimists), apple polishers (those who take credit for others’ work), and rotten apples (those who violate acceptable standards). Bad apples can be infectious and may lead to a catastrophic impact on morale and productivity. It is important for employers to have policies in place to prevent bad apples from infecting the rest of the barrel.

1. What are some ways to deal with employees that are bad apples?

The best way to deal with bad apples is not to hire them in the first place. Robert W. Baird & Co. makes it a priority to alert candidates in interviews that they will be fired if they prove to be bad apples. Technology firm Pulse screens candidates by having them work for a few days before hiring to observe their personality. Training employees could also help prevent bad apples by informing them of the company’s policies and what could happen if they are caught performing certain kinds of misconduct. Companies must enforce these policies to prevent bullying and other misbehavior. For serious forms of misconduct, the firm should discipline the employee and then, if nothing changes, potentially terminate him or her. Additionally, the firm should encourage other employees to come forward, perhaps through anonymous hotlines, and report negative behaviors such as bullying.

2. Why might bad apples cause other employees to engage in misconduct?

Employees who feel like victims are more dejected and dissatisfied with the company. If they perceive that bad apples are committing misconduct without any repercussions, then they might decide to engage in similar misconduct even if it initially goes against their principles. Most people take into account what their peers do in making ethical decisions. Additionally, employees who feel that they are being mistreated with no interference from the company might resent the firm and take retaliatory measures against it.

3. Why do you think it might be hard to root out bad apples?

This question is more open-ended. The students might mention the following:

- It can be hard to discover an applicant’s true personality during the hiring process.
- Terminating an employee is a drastic step even when the employee is caught engaging in misconduct.
- Managers must be constantly vigilant to observe misconduct.
- Employees may feel uncomfortable reporting misconduct, which could allow it to continue unchecked.

- Some “bad apple” characteristics, such as pessimism, are not necessarily illegal or unethical. Trying to deal with employee personalities and keep them from “infecting the rest of the barrel” is a tricky process.

Going Green, *Fracking for Natural Gas: Clean Energy Solution or Environmental Catastrophe?*

Hydraulic fracturing, known as fracking, forces water, sand, and chemicals into the ground, bringing natural gas to the surface. The EPA has begun examining fracking after concerns about the contamination of drinking water. Many fear that the energy crisis and economic benefits will overshadow environmental concerns. Stakeholders must balance economic benefits with potential environmental degradation.

1. What is the ethical issue involved with fracking, and why is it so hard to resolve?

The ethical issue involved with fracking is the environmental impact that it is having upon the area around the drilling site. On the positive side, fracking can reduce greenhouse gases and wean the United States off of foreign oil. It also has economic benefits by bringing business to towns near the drilling sites. On the negative side, however, fracking has been known to contaminate groundwater and pollute the land. This could create environmental degradation and harm consumers who have residences close to the drilling sites. Due to the economic and environmental issues involved, this ethics issue is not an easy one to resolve.

2. Gas companies can declare their chemical formulas as proprietary. Examine this issue from the perspective of the gas company as well as from the perspective of concerned stakeholders.

From the gas companies' perspectives, this proprietary information allows them to maintain a competitive advantage. Most companies have the right to maintain control over their proprietary property for a certain amount of time. On the other hand, the proprietary nature of this drilling means that the government and consumers have a harder time discovering exactly how the companies are drilling and even what they are using to drill. This could be problematic if these drilling techniques could prove harmful to the environment and to residents living near the drilling sites. Here the issue deals with the right to protect proprietary information versus consumers' right to know.

3. Why might the government want to support fracking?

Fracking could help wean the United States off of foreign oil, which would significantly reduce the country's energy costs. Economically, it could create an entirely new industry with thousands of new jobs. Finally, it might help achieve the country's goal of running on 80 percent clean energy by 2035 as it does not release as much carbon emissions into the atmosphere.

Solve the Dilemma: *Customer Privacy*

Checkers Pizza offered home delivery first, but the larger pizza chains soon took away its competitive advantage. Jon Barnard, Checker's founder, developed an information database to track phone customer's orders. Using information from the database, Barnard plans to reward the family who orders the most pizzas. But would that family want the recognition?

1. What are some of the ethical issues in giving customers an award for consumption behavior without notifying them first?

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.

2. Do you see this as a potential violation of privacy? Explain.

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.

3. How would you handle the situation if you were Barnard?

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.

APPENDIX BOX:

Consider Ethics and Social Responsibility: *The Dodd-Frank Controversy: Will It Work?*

1. Describe the arguments set forth by proponents and critics of the Consumer Financial Protection Bureau.

Proponents claim that the establishment of a Consumer Financial Protection Bureau (CFPB) will protect borrowers from deceptive financial practices. They say that the CFPB is working to eliminate unfair and confusing financial practices, such as creating a simplified mortgage form that borrowers can understand. Detractors say the CFPB will create problems for lenders and borrowers. They criticize the CFPB and its powers to regulate the market, believing the CFPB will create burdensome regulations, such as capping the interest rates that financial institutions can apply. This could harm borrowers because riskier applicants could be denied loans if rates are capped.

2. Why might Dodd-Frank prevent a future financial crisis?

The purpose of the Dodd-Frank Act is to prevent a future financial crisis. It aims to end "too big to fail" institutions, create a Consumer Financial Protection Bureau to protect consumers from complex and deceptive financial instruments, and develop rules to manage major risks in financial institutions. For instance, the Dodd-Frank Act aims to force big banks to have a "living will" that would contain information on the firm's operations and enable regulators "to dismantle it in an orderly fashion" should it begin to fail. Because the financial crisis developed partially as a result of financial instruments that many traders did not understand, excessive risk-taking, and "too big to fail" institutions requiring government bailouts, proponents of the Dodd-Frank Act hope this legislation will create a system of checks and balances to oversee these risks and ensure they do not contribute to another major financial crisis.

3. Do you believe the Dodd-Frank Act is a good idea?

Students' answers will vary.

SUPPLEMENTAL LECTURE

Recycling: A Dilemma for Business Firms

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

As more companies strive to be ecologically responsible as well as appeal to consumers by offering “green” products, many have come to believe the evidence that such programs may actually be economically profitable. Many companies now offer “green” versions of their traditional products as the proof mounts that many consumers favor these products. Organizations such as Walmart are reducing pollution and waste in anticipation of future federal regulatory mandates. 3M offers toilet-bowl brushes made from the leftover plastic fibers from its 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 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).

Discussion Questions:

1. Why has recycling become more popular and widespread?

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

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

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

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

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

CONTROVERSIAL ISSUE

Would You Be the One to Blow the Whistle?

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

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

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.

Discussion Questions:

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

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

SO YOU WANT A JOB IN BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

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

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

REVISIT THE WORLD OF BUSINESS, News Corporation's Corporate Culture: An Accident Waiting to Happen

Rupert Murdoch and his News Corporation seemed invincible as owners of Fox News and *The Wall Street Journal*. But with leadership problems and lack of internal controls, a disaster was inevitable. In 2007, an employee of the company-owned paper, *News of the World*, was arrested for phone hacking. This opened an investigation. It's now alleged that *News of the World* engaged in "serious criminality," including massive bribery.

1. Why has the News Corp. scandal become such an issue?

This scandal has become such an issue for many reasons. First, it involves illegally hacking into the privacy of individuals looking for news stories. Allegations have also surfaced that seem to indicate that the police and government officials had a relationship that was too "cozy" with News Corp. reporters and government officials. There are accusations that police were bribed to ignore misconduct at the tabloid *News of the World* as well as allegations that government officials may have overlooked improprieties because News Corp.'s newspapers held such sway with the U.K. public. Additionally, there seems to have been a general complacency that allowed the misconduct to go unchecked because News Corp.'s newspapers connected political figures with the public.

2. What are some of the alleged ethical issues that News Corp. faced? Describe these issues.

The most visible ethics issue is illegally invading someone else's privacy by hacking into their private property (i.e., cell phones). Another potential issue is bribery, or payments, gifts, or special favors intended to influence the outcome of a decision, to police officials. Such bribes could have prompted police officials to look the other way and allow illegal activities to continue unchecked. Another ethics issue is conflict of interest. Investigations are underway to determine whether political figures were motivated to look the other way because of the power Rupert Murdoch and News Corp.'s media had upon the U.K. public. Rupert Murdoch has also been accused of conflict of interest by having News Corp. buy his daughter's company. There is also the question of whether Rupert Murdoch and his son James Murdoch knew about the hacking. James Murdoch may have purposefully avoided knowledge of the misconduct at *News of the World*.

3. Why would Rupert Murdoch's influence over the board be a problem?

Rupert Murdoch's 40 percent ownership of News Corp. means that his vote holds major sway among board members. He might be able to oust board members that do not agree with him, and he can make decisions that the board and shareholders might not like. For instance, shareholders filed a lawsuit against Murdoch after he had News Corp. buy his daughter's company. Such power could create serious conflict of interest issues in which Murdoch might be placing his own interests over those of the company. His power might have also seriously reduced oversight by other board members, which may have prevented them from detecting misconduct within the company.

CHECK YOUR PROGRESS

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

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

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

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

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

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

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

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

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

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

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

Arguments for social responsibility include (1) business helped create problems and should help to solve them; (2) business has the financial and technical resources to help solve problems; (3) as a member of society, business should do its fair share to help others; (4) social responsibility can help prevent increased government regulation; and (5) social responsibility helps to ensure economic survival.

Arguments against social responsibility include (1) social responsibility detracts from the profit-making objectives of business; (2) participation in social responsibility programs gives business power at the expense of other segments of society; (3) business may not have the expertise to solve social problems; and (4) social problems are the responsibility of government agencies.

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

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

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

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

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

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

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

GET INVOLVED

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

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

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

Potential ethical issues include conflict of interest if the board members acted in their own best interests rather than in the interests of the company; fairness and honesty if they did conspire to replace the CEO

all along; insufficient communication since most stakeholders, many workers, and even some board members did not understand why the ouster took place; and business relationships since the replacement appeared to breach the agreement between the two companies when they merged. In this example, students might assume that the board members from Duke Energy favored the Duke Energy CEO for more personal reasons. Some proposed actions would have been to refuse to merge if there were concerns

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

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

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

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

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

BUILD YOUR SKILLS

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

Objectives

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

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

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

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

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

Materials

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

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 | RATIONALE |
|-----------------|---------------|---------------|--|
| 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. |
| 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. |
| 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. |
| 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. |

SCORE SHEET: Photocopy the chart, fill in the group leader's name at the top of each column, and

record the points for the choices selected.

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

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

BUILD YOUR BUSINESS PLAN

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

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

SEE FOR YOURSELF VIDEOCASE: Rebuilding America's Trust in Business

Case Overview

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

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

Questions for Discussion

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.

TEAM EXERCISE

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

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

Sample Answers:

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

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

TERM PAPER OR PROJECT TOPICS

These topics may be assigned as individual or collaborative projects:

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

GUEST SPEAKER SUGGESTIONS

1. A professor or teacher to talk about ethics in business.
2. A representative from a business firm to speak about business ethics, problems with business ethics in a competitive environment, and the importance of business ethics in dealing with consumers.
3. A business communication or English professor or teacher to speak to the class on what constitutes plagiarism, how to paraphrase, and how to use correct documentation.
4. An individual (concerned environmentalist, teacher, professor, etc.) to speak on local environmental issues.
5. A consumer relations manager to describe consumer relations programs of a local firm.

TEACHING SUGGESTIONS

1. As indicated in “Teaching Suggestions” for Chapter 1, instructors may wish to vary the daily organization of the lesson. Varying the sequence of activities adds variety to class presentation.
2. At the beginning of the chapter in the textbook and in this *Instructor’s Manual*, objectives are provided. Many instructors write the objectives on the chalkboard or on an overhead at the beginning of the class session and then at the end of the session check off each objective to determine if all the objectives have been achieved. Educational research indicates students learn more effectively when there is a summarization or review of the textbook content at the end of class sessions.
3. As a “writing to learn” exercise, allow approximately five minutes for students to write their thoughts or summary on this topic:

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

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

4. “Check Your Progress” is important for this chapter. A suggestion for large lecture halls is to assign different question numbers to different rows. Then call upon one person in a row to give his or her answer.
5. The instructor can lecture using the “Lecture Outline and Notes,” covering all of the chapter content. An alternative is not to cover the entire chapter but simply to use the PowerPoints to cover main points of the chapter; then the instructor may have time to use the “Supplemental Lecture” and/or “Controversial Issue” material provided in this *Instructor’s Manual*. If students are to have read the chapter prior to class, then the instructor may spend less time lecturing and more time with additional material, discussion questions, and boxed material or cases.
6. Use the quiz provided. Have students write answers quickly. Then have students call out the correct answers in unison. Ask if there are any questions about any of the answers.
7. Occasionally, an instructor may wish to give oral instructions or information to reinforce listening skills. One business professor gives part of her test instructions orally; she believes that teachers reward inattention by repeating information time and time again. She warns students that she will give the instructions only once and will not repeat instructions. Her students learn to listen!