BUSINESS ETHICS

**ETHICS AND BUSINESS**

**OBJECTIVES**

1. Identify what the Myth of Amoral Business is.
2. Understand the relationship between business as a human activity and, thus, as something that can be evaluated from a moral point of view.
3. Understand the relationship between business and society, as a whole.
4. Identify descriptive ethics, normative ethics, and metaethics.
5. Identify how business issues fits with the other systems of ethics.
6. Identify the five kinds of activities that comprise business ethics.

**CHAPTER SUMMARY**

**HORATIO ALGER AND STOCK OPTIONS**

In the last decades of the nineteenth century, the novels by Horatio Alger caught the imagination of young Americans. The stories presented a “rags to riches” plot about the energetic and dedicated work of the hero. The novels gave flesh to the widespread belief that America was the land of opportunity in which those who worked hard could make it big. Hard work and a little luck were all that was required. Oddly, alongside that belief was another contradictory one that anyone who was or became rich must have become so by unethical activity and behavior.

Stock options have been one way in which the American “dream” was instantiated – companies made stock options a feature of employee compensation in lieu of higher compensation. As stock options rose, many employees, particularly in high-tech companies, became very wealthy – on paper. As the market dropped, and the value of the stock dropped below the strike price, the weaknesses and volatility of the stock option programs was made clear. Additionally, the large blocks of stock given to top executives far exceeded those options given to employees. The disparity seems to have influenced both the rags to riches image of Horatio Alger and the suspicion that those who had exceeding wealth had acquired it unscrupulously.

The American people have for a long time been ambivalent in their response, and despite a growing consensus that ethics has a role to play in business, the public view of business is still expressed in what can be called the *Myth of Amoral Business.*

**THE MYTH OF AMORAL BUSINESS**

The Myth of Amoral Business expresses the ambivalence of many toward business and a popular, widespread view of American business. The myth describes how many American businesses and American businessmen and businesswomen perceive themselves and are perceived by others: Business is concerned primarily with profit. To earn a profit, a business produces goods or provides services and engages in buying and selling. According to the myth, however, businesses and people in business are not explicitly concerned with ethics. They are not unethical or *immoral*; rather, they are *amoral* insofar as they feel that ethical considerations are inappropriate in business. What is the true relation of ethics and business, which is only slowly emerging? What are the indications of its emergence?

**BUSINESS ETHICS AND ETHICS**

**Business Ethics as a Part of Ethics**

1. *Descriptive ethics* is closely related to anthropology, sociology, and psychology and leans heavily on them.

* It consists of studying and describing the morality of a people, culture, or society.
* It compares and contrasts different moral systems, codes, practices, beliefs, principles, and values.
* It provides basic material that normative ethics must account for, and it provides a touchstone of the considered morality of a people or society with which the normative theory must more or less coalesce.

1. *Normative ethics* builds on the whole that descriptive ethics provides and attempts to supply and justify a coherent moral system based on it.

* It attempts to form into a related whole the various norms, rules, and values of a society’s morality. It tries to render these as consistent and coherent as possible, with perhaps some hierarchical arrangement of norms.
* It attempts to find the basic principles from which the particular norms can be derived.
* It attempts, in a variety of ways, to justify the basic principle of morality.
* It attempts to provide a procedure by which conflicting norms can be adjudicated and particular cases decided.

1. *Metaethics*, the third portion of general ethics, is closely related to normative ethics. Metaethics is the study of normative ethics, and, to some extent, both normative and descriptive ethics involve some metaethical activity. It is sometimes called analytical ethics because it is concerned with analysis.

* First, metaethics deals with the meaning of moral terms. It asks, for instance, what the terms *good* and *bad* mean in the moral sense and what moral responsibility, moral obligation, and other similar phrases mean. Meaning, of course, is closely related to linguistic usage. Some people think meaning is identical with such usage. To say what good means may be distinct from saying what things or actions are good. The former is generally considered a metaethical concern, the latter a normative ethical concern.
* Second, metaethics studies the logic of moral reasoning.

The analysis of moral reasoning involves clarifying and evaluating presuppositions and investigating the validity of moral arguments. A famous, and still not completely resolved, metaethical dispute concerns the question of whether a moral ought or duty can be derived logically from a statement of what is, exclusive of normative premises. For instance, from the fact that people typically wish to live rather than die, can we infer a right to life or an injunction against murdering them?

From the fact that people pursue pleasure, can we conclude that it is ethically right or good to pursue pleasure? If we cannot derive how we should act from facts about how we do act, can we derive them from any set of facts, or do we need values or preferences or rules? If we do, why should we act in accordance with these? What is the basis or rationale for prescribing how we should act? The general answer to that question is metaethical. A particular theory that in fact presents a basis or rationale is a normative theory.

* Third, metaethics analyzes hidden presuppositions and brings them to light for critical scrutiny. Many of the activities of ordinary life are simply accepted as given. By viewing them as social constructs, one can look, for instance, at the presuppositions of what is taken to be a just society or a just practice and see if it stands up to critical scrutiny.

Business ethics typically involves five kinds of activities.

* The first is the applying of general ethical principles to particular cases or practices in business. Deciding whether the actions involved are immoral or morally justifiable is important. But the analysis of cases does not end there. Solving cases frequently involves the development, as well as the application, of special rather than general moral principles, which can nonetheless be made universal. Cases involving unethical activity sometimes suggest issues that need attention, clarification, and discussion. Such cases also challenge us to consider imaginatively how we can prevent similar cases from arising in the future, and to develop suggestions that business, if it wishes to act ethically, might implement, or that government, if necessary, might adopt. Some of the questions are as follows: What changes in organization, managerial techniques, social structures, programs, or approaches are required? And would moral imagination, care in assessing future development, or changes in attitude help preclude moral dilemmas? Business ethics, however, involves more than just applying moral principles to business.
* The second kind of activity is metaethical. We shall investigate, for instance, whether moral terms that are generally used to describe individuals and the actions they perform can also be applied to organizations, corporations, businesses, and other collective entities. For instance, are corporations artifacts to be controlled, or moral or quasi-moral entities with rights, or do they have some other status? Do they have consciences in the same way individuals do? Does moral language appropriately apply to them, and if so, does it apply in the same way as it does to individuals? The answers to these questions are not supplied by general ethical theory, which traditionally has been concerned with the actions of human individuals. The meaning of *responsibility* must be changed if it is to be appropriately applied to corporations as well as to human persons. The analysis of this type of problem in business ethics cannot take place in abstraction from general ethical theory. There is a reciprocal relation between business ethics and general ethics. But those involved in business ethics often engage in metaethical inquiries that their work demands and that general theory does not provide.
* A third activity of business ethics is the analysis of the presuppositions of business—both moral presuppositions and presuppositions from a moral point of view. Because business operates within an economic system, part of the proper task of business ethics is to raise questions about the morality of economic systems in general and about the morality of specific, for example, the American, economic systems in particular. In evaluating structures of business, we must also analyze the meaning and justification of such nonmoral terms as *property*, *exploitation*, *competition*, and the presuppositions and uses of cost-benefit analyses, accounting procedures, and so on.
* Fourth, those in business ethics are sometimes led by embedded problems to go beyond the field of ethics into other areas of philosophy and into other domains of knowledge, such as economics or organization theory. But when they go beyond their own areas, they usually do so to resolve some problem in business ethics or to investigate in some other area what appeared, initially, to be a problem in business ethics. This activity becomes especially important in dealing with macromoral issues, such as whether rich countries have any moral obligations to poor countries, or multinational corporations to host countries. Here our ordinary moral intuitions are less clear than they are in our personal dealings with individuals. Hence, there is a special need to sort out the issues carefully, to see which are moral and which are not, and to clarify the language and the level of moral discourse. Sometimes the task concerns reducing moral problems to managerial, organizational, or economic problems, or vice versa.
* The fifth activity in which business ethics is typically involved is describing morally praiseworthy and exemplary actions, of either individuals in business or particular firms. Business ethics initially developed in reaction to scandals, and the cases that aroused public indignation were those that violated fundamental norms of human decency. Business ethics, however, is involved not only in the negative task of trying to clarify what actions are wrong, but also of presenting moral ideals to which businesspeople and corporations can rise. Just as society provides moral exemplars, heroes, saints, and others on whom we can model our lives and behavior, so there are moral exemplars in the business world who can serve as examples to others and set a goal toward which others might aspire.

Business ethics can help people approach moral problems in business more systematically and with better tools than they might otherwise use. It can help them to see issues they might typically ignore. It can also impel them to make changes they might otherwise not be moved to make. But business ethics will not, in and of itself, make anyone moral. Business ethics, as is true of ethics in general, presupposes that those who study it already are moral beings, that they know right from wrong, and that they wish to be even better, more thoughtful, and more informed moral beings. Business ethics will not change business practices unless those engaged in the practices that need moral change wish to change them. Business ethics can produce arguments showing that a practice is immoral, but obviously, only those in a position to implement the changes will be able to bring them about. Business ethics is a field with practical import, but it is up to those who study it to put what they learn into practice.

**CASE SUMMARIES**

**The Case of the Collapsed Mine**

Though this case is fictitious, the reality of collapsed mines in the coal industry is an unfortunate reality. The use of cases can cause general questions in ethics to come into clearer focus.

Consider the case of the collapsed mine shaft. In a town in West Virginia, miners were digging coal in a tunnel thousands of feet below the surface. An explosion traps eight miners in a pocket. The explosion was one of great force, and the extent of the tunnel’s collapse was considerable. The cost of reaching the men in time to save their lives would amount to several million dollars. The problem facing the manager was whether the expenditure of such a large sum was worth it. What, after all, was a human life worth? Who should make the decision, and how should it be made? Did the manager owe more to the stockholders of the corporation or to the trapped workers? Should he use the slower, safer, cheaper way of reaching them and save a large sum of money, or the faster, more dangerous, more expensive way, and possibly save their lives?

**TEACHING STRATEGIES**

As with some chapters of this text, the first case study is a starting point for conversation and for the earlier section of the chapter. Another case study completes the chapter. At times, it is more pedagogically appropriate to save both case studies for later, and in those instances, the opening case study is grouped along with the concluding one. In this chapter, however, as the story of Horatio Alger and the historical background with regard to stock options is crucial in developing the notion of the myth that is the arc of the entire text, it is discussed prior to the beginning of the chapter material.

As a pedagogical matter, it would be helpful here to encourage students to offer stories they have heard or that are part of their own past as examples of either “rags to riches” stories or corporate scandals. Generally discussions of predatory business practices or “pragmatic” business practices wherein “ethics” is seen as a quaint or irrelevant feature will be lively. One can expect the students to arrive at the substance of the Myth of Amoral Business through the course of the discussion. Then, it makes it clearer going forward that there is an argument being developed throughout the text as well as in the opening chapter – that the Myth of Amoral Business is a myth and that there is not only a place for ethics in business, but indeed, that ethical business is itself good business.

**KEY TERMS AND CONCEPTS**

The Myth of Amoral Business

Metaethics

Property

Exploitation

Competition

Descriptive ethics

Normative ethics

**ESSAY QUESTIONS**

1. What is the Myth of Amoral Business? In what ways is it both an accurate representation of business and an inaccurate one?
2. Compare and contrast descriptive ethics and normative ethics.
3. What are the three kinds of business ethics discussed in the chapter, and how are they similar and different?
4. How is the “business of business” decided? By whom and on what basis?
5. What is the difference between metaethics and casuistry?

**MULTIPLE CHOICE**

1. Who was the moral philosopher who wrote *The Theory of Moral Sentiments* as well as *The Wealth of Nations*?
   1. John Locke
   2. John Wesley
   3. David Hume
   4. Adam Smith
   5. Immanuel Kant
2. Who was the philosopher who condemned usury?
   1. Thomas Aquinas
   2. Reinhold Niebuhr
   3. Adam Smith
   4. Immanuel Kant
   5. G. W. F. Hegel
3. The Myth of Amoral Business is consistent with which of the following?
   1. Business and people in business are immoral.
   2. Businesses and people in business are inherently ethical.
   3. Businesses and people in business are not explicitly concerned with ethics.
   4. Businesses and people in business are unethical
4. Which of the following describes descriptive ethics?
   1. It deals with the meanings of moral terms.
   2. It compares and contrasts different ethical systems, codes, practices, and beliefs.
   3. It attempts to form into a related whole the various norms, rules, and values of a society’s morality.
   4. It studies the logic of moral reasoning.
5. Which of the following describes normative ethics?
   1. It attempts to form into a related whole the various norms, rules, and values of a society’s morality.
   2. It compares and contrasts different ethical systems, codes, practices, and beliefs.
   3. It studies the logic of moral reasoning.
   4. It deals with the meanings of moral terms.
6. Which of the following describes metaethics?
   1. It compares and contrasts different ethical systems, codes, practices, and beliefs.
   2. It attempts to form into a related whole the various norms, rules, and values of a society’s morality.
   3. It attempts to justify the basic principle of morality.
   4. It analyzes hidden presuppositions and brings them to light for critical scrutiny
7. Which of the following describes normative ethics?
   1. It attempts to justify the basic principle of morality.
   2. It compares and contrasts different ethical systems, codes, practices, and beliefs.
   3. It consists of studying and describing the morality of a people, culture, or society.
   4. It analyzes hidden presuppositions and brings them to light for critical scrutiny
8. Special ethics applies to which of the following?
   1. It analyzes hidden presuppositions and brings them to light for critical scrutiny
   2. It consists of studying and describing the morality of a people, culture, or society.
   3. It analyzes societal practices and their application to particular problems.
   4. It consists of applying general ethics to particular problems.
9. Which of the following is the art of solving difficult problems, cases, or deliberations through the careful application of moral principles?
   1. special effects
   2. normative ethics
   3. casuistry
   4. metaethics
10. Business ethics is typically which of the following?
    1. special effects
    2. normative ethics
    3. casuistry
    4. metaethics

ANSWERS: 1. D; 2. A; 3. C; 4. B; 5. A; 6. D; 7. A; 8. D; 9. C; 10. C

**CHAPTER 2: CONVENTIONAL MORALITY AND ETHICAL RELATIVISM**

**OBJECTIVES**

1. Identify the levels of moral development.
2. Identify the differences between subjective and objective morality.
3. Identify the differences between descriptive relativism and normative ethical relativism.
4. Identify the differences between moral absolutism and moral pluralism.
5. Identify the differences between theologically based ethics and philosophically based ethics.

**CHAPTER SUMMARY**

**SUBJECTIVE AND OBJECTIVE MORALITY**

Three characteristics are usually associated with such judgments.

* First, moral judgments about the rightness or wrongness of an action are held to be universally applicable. If an action is right for me, it is also right for anyone else in the same circumstances. If it is wrong for you, it is also wrong for anyone else similarly placed. Something of the notion of universality is captured in the injunction “do unto others as you would have them do unto you.” The moral rule against murder says it is wrong for anyone to murder someone else. It is universal because it applies to everyone.
* Second, moral judgments are important. They are so important, in fact, that they override other considerations. We are morally bound to do what we sometimes may not want to do. For instance, it is wrong to steal, even when we would like to steal. If we say that it is our moral duty to perform an action, that means we have an obligation to do it, and this can only be overridden by a stronger moral consideration. Convenience, personal gain, and even legal requirements fall before moral obligations.
* Third, moral praise can properly accompany the doing of morally right actions, and moral blame can properly accompany acting immorally. If we say that someone in a business transaction acted immorally, this means that, from a moral point of view, it is appropriate for us to blame that person. For instance, if taking bribes is immoral, then those involved in bribery deserve moral blame or censure.

**DESCRIPTIVE RELATIVISM**

*Descriptive transcultural relativism* describes the differences between cultures. In some cases, the differences are such that the terms “right” and “wrong” or “better” and “worse” are not applicable to the differences noted. All cultures have a language, and some languages are more complex than others. But it makes little sense to say that one language is, in some absolute sense, better than another. Similarly, many aspects of one culture will differ from aspects of another, but the two can be equally good.

**NORMATIVE ETHICAL RELATIVISM**

*Normative ethical relativism claims that when any two cultures or any two people hold different moral views of an action, both can be right.* Thus, an action may be right for one person or society, and the same action, taken in the same way, may be wrong for another person or society, and yet the two persons or societies are equally correct.

**MORAL ABSOLUTISM**

One alternative to ethical relativism is *moral absolutism.* A moral absolutist holds that there are eternal moral values and eternal moral principles that are always and everywhere applicable.

**MORAL PLURALISM**

We can distinguish four levels of moral pluralism: radical moral pluralism, the pluralism of moral principles, the pluralism of moral practices, and the pluralism of self-realization.

* *Radical moral pluralism* describes that state of affairs in which people hold mutually irreconcilable views about morality, such as what the terms “right” and “wrong” mean, and which actions are right or wrong.
* A plurality of moral principles within a society does not necessarily mean irreconcilable diversity. Pluralism on the level of moral principles is compatible with social agreement on the morality of many basic practices.
* On the level of specific actions, we encounter a variety of moral opinions about some of them. This pluralism regarding moral practices may stem from differences of moral principles, but it may also stem from differences of fact or perception of facts, differences of circumstances, or differences in the weighing of relevant values. Even when there is basic agreement on principles, not all moral issues are clear.
* The fourth level of moral pluralism is that of self-realization. As long as the members of a society abide by the basic moral norms, they are allowed, in such a pluralistic society, to choose freely their other values and their lifestyles.

**PLURALISM, BUSINESS, AND THE LAW**

* What laws should a society establish and how are they justified? Many laws prohibit immoral practices; immoral practices, for the most part, are socially harmful practices. Some, such as murder, stealing, and perjury, are so harmful that to moral sanction is added the sanction of law. Hence, one way to argue that a law should be passed is to argue that the conduct the law is to govern is immoral and seriously harmful to society. For instance, racial discrimination was immoral before it was made illegal. The worst abuses by business—such as slave or child labor or sweatshop conditions—although unethical could only be substantially eliminated when made illegal. If law were the only guide, it would not have been possible to argue against those abuses.
* Law is for the most part reactive. There is a lag between practices that society discovers are harmful and legislation being drafted and passed to render them illegal. One reaction to scandals is often an attempt to preclude similar future scandals by legislation. Thus law is important not as a determinant of what is or should be permitted but as an enforcer of rules that aim to prevent social harm or promote human or social well-being.
* Not all laws are morally defensible. Laws requiring racial segregation and discrimination are a case in point. To abide by the law in practicing discrimination was, in fact, to act immorally. It is dangerous to equate law with what one is morally, as well as legally, required to do because this denies the possibility of arguing, from a moral point of view, that either a law should be passed or a bad law should be repealed.
* Not everything that is immoral can be made illegal. Although, for instance, it is immoral to lie, this does not mean that all lying should be made illegal. Such a law would be unenforceable, nor would it be worth the time and effort to try to enforce it to any considerable extent. Yet it does not follow—even for those in businesses who claim that they are bound only by law—that it would be right for businesspeople to lie whenever they feel like it, either to those within the company or to those with whom they do business. In most cases it would be considered bad business as well as immoral.
* All this notwithstanding, it is sometimes the case that actions that are not unethical in themselves become unethical because of laws that are passed. This is because in general, members of a society have a moral obligation to obey the just laws of their society. An example would be the obligation to pay one’s income tax. Members of a society have no general moral obligation to give money to the government. Once a tax law is passed, however, they incur the moral obligation to pay their fair share of taxes. The amount they pay is determined by the law, and may vary from time to time, place to place, and level of income. Cheating on one’s income tax is both unethical and illegal, and in this case is unethical because it is illegal.

**BUSINESS AND RELIGIOUS ETHICS**

Just as law is important but not the solution to moral pluralism, so religious ethics is important to many in and out of business, but not the solution to moral pluralism because there are many religions and their ethical codes are not all the same. This is clearly the case on the global level and is also true on the national level if a single religion is not enforced by the state. This does not mean that individuals may and many do live their lives, including their business lives, on the basis of their religiously held moral beliefs.

**APPROACHES TO ETHICAL THEORY**

The search for a completely satisfactory ethical theory is a never-ending one. There is no theory on which all people or all philosophers agree. Nonetheless, we need not describe here the many different ethical systems that have been developed in the history of philosophy. Through the centuries, two basic approaches to moral reasoning have prevailed. One approach argues on the basis of ends. This approach to ethical reasoning is called a *teleological* approach, the most prominent version of which is consequentialism. The latter states that whether an action is right or wrong depends on the consequences of that action. A common form of consequentialist ethics, one that is very strongly represented in our society, is *utilitarianism*, a theory we shall examine in the next chapter.

Philosophers and others who wish to be consistent often attempt to use only one of the ethical approaches to questions. Because they hold a single approach, they are called *ethical monists.* Those who are willing to mix their approaches are sometimes called *ethical pluralists.* They hold one primary approach or set of principles but join them with another approach or set of principles.

**CASE SUMMARY**

**Purchasing Abroad**

Mary Thompson is the vice president and head of the strategic planning division of an American-based multinational. She long believed in the slogan “When in Rome, do as the Romans do,” but in recent years she has been forced to rethink that position. Faced with the prospects of purchasing fabric likely produced with forced labor, or with child labor, or in situations where women are systematically oppressed, should she use American values and American views as a guide to what is right and wrong, or should she simply get the best products she can at the best price and not worry about how or by whom they are produced?

**TEACHING STRATEGIES**

It is most important to make clear the distinctions between relativism and consequentialism and the ways in which each of the principles/ethical approaches is developed. Incorporating the Purchase Abroad case allows the instructor to distinguish between descriptive and normative relativism (and, perhaps, continue the conversation of the first chapter on the Myth of Amoral Business into this chapter).

Making the distinction between ethical monism and ethical pluralism is also an important building block for later chapters. The different paths – approaching problems from a single ethical perspective or from a plurality of them – form the basis of much of the analysis in the forthcoming chapters.

This is a chapter that continues to build the foundation of the ethical frameworks that will be necessary for truly assessing ethical situations. Again, it is important that that foundation is solidly understood before progressing.

**KEY TERMS AND CONCEPTS**

Ethical pluralism

Ethical monism

Consequentialism

Utilitarianism

Moral pluralism

Relativism

Descriptive Relativism

Normative Ethical Relativism

Moral Absolutism

Subjective Morality

Objective Morality

**ESSAY QUESTIONS**

1. Compare and contrast theologically base ethics and philosophically based ethics.
2. Compare and contrast the teleological approach to ethics and a deontological one.
3. What is the difference between ethical monism and ethical pluralism? What are the strengths and weaknesses of each?
4. What is the difference between saying that something is objectively right and subjectively right?
5. What is the distinction between being a moral absolutist and a moral relativist? Is there some position between the two and, if so, what is it?

**MULTIPLE CHOICE**

1. What is the first level of moral development, according to Lawrence Kohlberg?
   1. preconventional
   2. conventional
   3. autonomous
   4. postconventional
2. According to Lawrence Kohlberg, what is the second level of moral development?
   1. preconventional
   2. conventional
   3. autonomous
   4. postconventional
3. Which level of moral development does Kohlberg call the “principled level”?
   1. Level I
   2. Level IV
   3. Level III
   4. Level II
4. What does it mean for an action to be subjectively right?
   1. An action is subjectively right if it is in conformity with the moral law.
   2. An action is subjectively right if a person believes that the action is moral.
   3. An action is subjectively right if it promotes the greater good.
   4. An action is subjectively right if it advances one’s own self-interest.
5. What does it mean for an action to be objectively right?
   1. An action is objectively right if a person believes that the action is moral.
   2. An action is objectively right if it promotes the greater good.
   3. An action is objectively right if it advances one’s own self-interest.
   4. An action is objectively right if it is in conformity with the moral law.
6. What is the name given to philosophers who attempt to use only one ethical approach to ethical questions?
   1. ethical pluralists.
   2. utilitarians
   3. ethical monists.
   4. deontologists
7. What is the name given to philosophers who construct their ethical approaches with mixed approaches?
   1. ethical pluralists.
   2. utilitarians
   3. ethical monists.
   4. deontologists
8. Consequentialism belongs to which sort of ethical approach?
   1. deontological
   2. special
   3. teleological
   4. theological
9. A Kantian ethical approach applies to which sort of general ethical approach?
   1. deontological
   2. special
   3. teleological
   4. theological
10. John Stuart Mill’s approach to ethics would be classified as which sort of general ethical approach?
    1. deontological
    2. utilitarian
    3. theological
    4. ontological

ANSWERS. 1. A; 2. B; 3. C; 4. B; 5. D; 6. C; 7. A; 8. C; 9. A; 10. B

**Business Ethics and Social Responsibility**

***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.

# Key Terms and Definitions

|  |  |
| --- | --- |
| **bribes** | Payments, gifts, or special favors intended to influence the outcome of a decision. |
| **business ethics** | Principles and standards that determine acceptable conduct in business. |
| **codes of ethics** | Formalized rules and standards that describe what a company expects of its employees. |
| **consumerism** | The activities that independent individuals, groups, and organizations undertake to protect their rights as consumers. |
| **corporate citizenship** | The extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders. |
| **ethical issue** | An identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical. |
| **plagiarism** | The act of taking someone else’s work and presenting it as your own without mentioning the source. |
| **social responsibility** | A business’s obligation to maximize its positive impact and minimize its negative impact on society. |
| **sustainability** | Conducting activities in a way that allows for the long-term well-being of the natural environment, including all biological entities. 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 2.4 -2.5 **LO 2-1**

1. Business Ethics and Social Responsibility
2. **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.

PPT 2.6

1. **Social responsibility** refers to a business’s obligation to maximize its positive impact and minimize its negative impact on society.
2. 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 2.7

1. 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.
2. Most legal issues arise as choices that society deems unethical, irresponsible, or otherwise unacceptable.
3. All actions deemed unethical are not necessarily illegal.
4. Legal and ethical concerns change over time.
5. Business ethics, social responsibility, and laws together act as a compliance system, requiring that businesses and employees act responsibly in society.
6. 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 2.8

1. The Role of Ethics in Business
2. 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.
3. Business ethics goes beyond legal issues, and ethical conduct builds trust among individuals and in business relationships.
4. Learning to recognize and resolve ethical issues is a key step in evaluating ethical decisions in business.

PPT 2.9 **LO 2-2**

1. Recognizing Ethical Issues in Business
2. 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.
   1. Many issues seem straightforward but in reality are quite complex.
      1. One example is **Bribes** (payments, gifts, or special favors intended to influence the outcome of a decision) are illegal in many countries, including the U.S. but in Japan, it is considered impolite *not* to bring gifts to a business meeting.
      2. Ethics is related to the culture in which a business operates, and bribes are common in other parts of the world
   2. 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.

PPT 2.11-2.13

1. The National Business Ethics Survey found that workers witness many instances of ethical misconduct in their organizations.
2. Misuse of Company Time
   1. Theft of time is the number one area of misconduct in the workplace.
   2. 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.
   3. All of these activities add up to lost productivity and profits for the employer.
3. Abusive and Intimidating Behavior
   1. Second most common kind of ethical problem for employees.
   2. Involves anything from physical threats, false accusations, profanity, insults, yelling, harshness, and unreasonableness to ignoring someone or simply being annoying.
   3. Difficult to assess and manage, especially in diverse workplaces where culture and lifestyles differ.
   4. Bullying is associated with a hostile workplace when a person or group is targeted and threatened, harassed, or abused in some way.
4. Misuse of Company Resources
   1. Identified as a leading issue of misconduct in the workplace.
   2. 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.

1. Conflict of Interest
   1. Conflicts of interest exist when a person must choose whether to advance his or her own personal interests or those of others.
   2. To avoid conflicts of interest, employees must be able to separate their personal financial interests from their business dealings.
   3. 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 2.14-2.15

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. Employees must abide by the laws and regulations, cause no harm through dishonest behavior, and use company resources honestly.
4. Employees should be aware of policies and recognize how decisions relate to ethical behavior.
5. Fairness in competition is one aspect of fairness, which includes not bullying your competition.
   1. Such was the case of Pool Corporation, the largest distributor of pool products, when it bullied pool manufacturers by threatening to refuse to distribute their products if they did business with competitors.

6. Communications

* + - 1. False and misleading advertising and deceptive selling tactics anger customers and can lead to business failure.
      2. Truth about product safety and quality are also important to consumers.
      3. 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 2.18

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 2.19-2.21 **LO 2-3**

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.
3. 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.
4. Useful to examine causes of conflict because many organizational issues emerge from conflict (e.g. conflict between personal moral standards and organizational standards).
5. **Codes of ethics** are formalized rules and standards that describe what a company expects of its employees.
6. Codes of ethics should provide guidelines and principles that can help employees achieve objectives and address risks in an acceptable and ethical way.
7. 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.
8. Ethics programs should include a means through which employees can report observed misconduct anonymously.
9. **Whistleblowing** occurs when an employee exposes an employer’s wrongdoing to outsiders, such as the media or government regulatory agencies.
   1. 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.
   2. 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.
   3. The government has established a whistleblower bounty program to reward whistleblowers a percentage of monetary sanctions over $1 million.
10. 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.
11. Firms that develop higher levels of trust function more efficiently and effectively and avoid damage to their company’s reputation and product image.

PPT 2.22 **LO 2-4**

1. The Nature of Social Responsibility
2. 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. We looked at ethical responsibility in the first half of this chapter
   4. Voluntary responsibilities are non-required activities that promote human welfare or goodwill.

PPT 2.23

1. **Corporate citizenship** is the extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders.
   1. Involves action and measurement of how deeply the firm embraces the corporate citizenship philosophy
   2. Then follows through by implementing citizenship initiatives
   3. The Ethisphere Institute lists some of the World’s Most Ethical Companies using corporate citizenship as part of the criteria
2. 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 2.26-2.29 **LO 2-5**

1. Social Responsibility Issues
2. Social responsibility is dynamic, with issues changing constantly in response to society’s demands.
   * + 1. Research shows it is linked with improved business performance.
3. Relations with Owners and Stockholders
   1. Businesses must first be responsible to their owners who are primarily concerned with earning a profit or a return on investment in a company.
   2. This responsibility is more easily fulfilled in small businesses than in large businesses.
   3. 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.
4. Employee Relations
5. 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.
6. Many of the laws regulating safety in the workplace are enforced by the Occupational Safety and Health Administration (OSHA).
7. Labor unions have also made significant contributions to achieving safety in the workplace and improving wages and benefits.
8. A major social responsibility for business is providing equal opportunities for all employees regardless of sex, age, race, religion, or nationality.

PPT 2.30

1. Consumer Relations
2. **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:
      * 1. The *right to safety* means that a business must not knowingly sell anything that could result in personal injury or harm to the consumer.
        2. The *right to be informed* gives consumers the freedom to review complete information about a product before they buy it.
        3. The *right to choose* ensures that consumers have access to a variety of products and services at competitive prices.
        4. The *right to be heard* assures consumers that their interests will receive full and sympathetic consideration when the government formulates policy.

PPT 2.31-2.33

1. Sustainability Issues
2. **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.
3. 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.
4. Environmental protection emerged as an important issue in the 20th century.
5. 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.
6. Alternative energy
7. Fossil fuels are problematic because of pollution, depleted stores, and political problems with countries from which they are exported.
8. Alternative sources of energy include wind power, solar power, nuclear power, biofuels, electric cars, and hydro- and geothermal power.

PPT 2.34-2.35

1. Response to environmental issues
2. Many companies now have a vice president of environmental affairs position
3. Environmentalism can help a company reduce waste, save money, and improve its reputation
4. Environmentalists are becoming concerned that some companies are merely g*reenwashing*, or “creating a positive association with environmental issues for an unsuitable product, service, or practice.”
5. Environmental responsibility always involves trade-offs between costs of reducing/eliminating pollution and the health threats of not doing so.
6. Managers must coordinate environmental goals with social/economic ones
7. Community Relations
8. The most common way in which businesses exercise their community responsibility is through donations to local and national charitable organizations.
9. Even small companies participate in philanthropy through donations and volunteer support of local causes of interest.

PPT 2.37

1. 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.

### Boxed Text Discussion Questions

***New Orleans Saints Faces Down Bounty Scandal***

Business ethics does not just apply to the corporate world. It applies to all organizations, including sports, politics, nonprofits, and more. The bounty scandal of the New Orleans Saints football organization is an example of ethical misconduct in leadership. The head coach, assistant coach, defensive coordinator, and general manager all received suspensions for offering a monetary award to the defensive line players who would “cart off” ($1,000) or “knock out” ($1,500) their opponents during games. These abusive and intimidating behaviors are not just a way to win games but are serious threats to the safety of the players.

According to most football players in the NFL, the bounty system is a common occurrence but is usually orchestrated on a small scale by the players without the knowledge of management. Under the leadership of the New Orleans Saints, the players succumbed to an ethical dilemma: Take out their opponents and receive the money to increase their chances of winning a game, or not get involved. The culture that the management of the Saints nurtured did not reflect the code of ethics the NFL promotes, which is player safety and competitive integrity. Some of the players were also suspended, but the suspensions were lifted after an appeals panel decided there was not enough evidence against them. This damaged reputation might take the team years to recover from. However, the New Orleans Saints team has learned the major lesson that ethical leadership is important to success.

1. **Describe the ethical issue the New Orleans Saints faced.**

The ethical issue here began with top management. Any NFL top managers should have stepped in to halt the bounty system enacted by the players, but the endorsement of the Saints’ top management is a serious ethical issue for their organization. The culture that the management of the Saints nurtured did not reflect the code of ethics the NFL promotes, which is player safety and competitive integrity.

1. **What does this situation say about the New Orleans Saints’ organizational culture?**

The organizational culture was highly unethical in the Saints’ organization. Most unethical activities within organizations are supported by an organizational culture that encourages employees to bend the rules.

1. **What are some ways the New Orleans Saints team might begin to rebuild its reputation?**

Replacing top management is a start. Fining players who participate in any type of bounty program is another way to start to rebuild their reputation The Saints’ organization also needs to be totally transparent with the public, trying to regain their confidence.

***Unilever Makes Palm Oil Sustainable***

Unilever is working toward full sustainability when it comes to palm oil production. The process of extracting palm oil has gained global attention because of unsustainable practices such as deforestation, which has led to the destruction of native animal habitats. Because Unilever is a large company that works with an extensive supply chain, maintaining ethical sourcing practices can be a bit of a burden and are hard to track. Yet as the buyer, Unilever is responsible for any unethical sourcing practices in its supply chain.

Unilever is attempting to monitor its supply chain in two ways. First, it has invested $100 million to build a palm oil processing plant in Indonesia, the source of much of its palm oil, to ensure responsible practices. Second, Unilever is purchasing Green-Palm certificates from the Roundtable on Sustainable Palm Oil (RSPO) when it purchases palm oil from other processing companies. The RSPO monitors the practices of palm oil processing companies and issues them certificates when they meet sustainable, environmentally responsible standards. These certificates can then be purchased by companies such as Unilever in an attempt to ensure ethically sourced supply chains. This alleviates some of the skepticism about the origins of the palm oil. However, this method is not entirely dependable because the processing of all the palm oil is not completely traceable. Despite limitations, it is a step in the right direction for Unilever. The company hopes to have full sustainability in palm oil processing within the next ten years.

1. **Why is it so difficult for large firms to monitor their supply chains?**

Palm oil production is difficult to track due to the differences in cultures and sustainable practices. What one country labels “sustainable” may not be so for another country. Maintaining a paper trail in less developed countries can be a challenge and make the end product virtually untraceable.

1. **What are some ways that Unilever is attempting to improve the sustainability of its supply chain?**

They are attempting to monitor the supply chain more closely. Building its own processing plant is a very big step in monitoring the supply chain. Unilever is also purchasing Green-Palm certificates as an attempt to ensure ethically sourced supply chains.

1. **What are some problems with relying on GreenPalm certificates?**  The processing of palm oil itself makes the product untraceable so the certificates do little. However, they do raise awareness. **Do you think Unilever should do more to ensure the sustainability of its palm oil sourcing?** Purchasing its own processing plant is a very big step. Unilever could take it further by working with the farmers in the areas surrounding the plant, educating them and in turn receiving quality assured product.

**Appendix Box:**

***Web Marketers Experience Limitations on Online Tracking of Children***

Web marketers may soon see restrictions placed on their ability to collect information about children. COPPA, the Children’s Online Privacy Protection Act, is looking to pursue stricter privacy measures on online tracking that has been leaving room for children to be tracked through games, apps, social networks, and websites. The privacy measures are aimed directly at users under the age of 13. Although COPPA prohibits websites from collecting certain types of information on children under 13 without parental consent, the growing use of smart phones and other devices has provided online marketers with an opportunity to bypass these rules.

The proposed changes are expected to close loopholes that allow companies to access children specifically with third-party advertising through Facebook and iPhone games without parental consent. These changes would also include blocking cookies and/or disabling geolocation systems, which can be used to target children with advertising, specifically on smart phones. For websites to gain consent, parents would have to provide their e-mail addresses or names.

Updating COPPA could help protect child safety and enable parents to feel more secure when their children download apps or games on mobile devices. On the other hand, many companies are against the rules, saying they already take measures to protect children’s anonymity. They also claim that additional regulations could hinder online advertising, which is necessary to finance the free online content they offer to children.

1. **Why do regulators think it necessary to update COPPA?**

The proposed changes will close loopholes that allow companies to access children specifically with third-party advertising without parental consent. The increased use of SmartPhones is another reason COPPA needs updated. There are new technologies available that were not around when the Act was enacted.

1. **What are some of the proposed changes that regulators are recommending?**

The proposed changes are expected to close loopholes that allow companies to access children specifically with third-party advertising through Facebook and iPhone games. These changes would also include blocking cookies and/or disabling geolocation systems, which can be used to target children with advertising, specifically on smart phones. For websites to gain consent, parents would have to provide their e-mail addresses or names.

1. **What are some of the arguments that companies have against new regulations?**

Many companies are against the rules, saying they already take measures to protect children’s anonymity. They also claim that additional regulations could hinder online advertising, which is necessary to finance the free online content they offer to children.

***Supplemental Lecture***

## Recycling: A Dilemma for Business Firms

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

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

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

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 10, 2013); “The Home Depot and the Environment,” Home Depot, Inc. corporate website, <https://corporate.homedepot.com/CorporateResponsibility/Environment/Pages/default.aspx> accessed September 10, 2013); 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/> (accessed September 10, 2013).

**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.

1. **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.

### 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.

***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.

1. “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.
2. The instructor can lecture using the “Lecture Outline,” 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.
3. 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.
4. 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!