Business Essentials 12th edition Ebert Solutions Manual

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Chapter 2: Understanding Business Ethics and Social Responsibility

Chapter Overview

Just because others see something as ethical doesn't mean you will agree. There is not always a yes/no, right/wrong, black/white answer to everything. We all develop a personal code of ethics that we carry over into our jobs. Sometimes we decide what is ethical based on what is acceptable to others—even though the behavior may be unethical.

This chapter presents a discussion of business ethics, the role of a formal code of ethics, as well as business approaches to social responsibility. The chapter also discusses how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors, and how issues of social responsibility and ethics affect small business.

Learning Objectives

2-1. Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.

2-2. Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.

2-3. Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.

2-4. Identify four general approaches to social responsibility and note the role of social responsibility in small business.

2-5. Explain the role of government in social responsibility in terms of how governments and businesses influence each other.

2-6. Discuss how businesses manage social responsibility in terms of both formal and informal dimensions and how organizations can evaluate their social responsibility.

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LIST OF IN-CLASS ACTIVITIES: INSTRUCTOR'S CHOICE

Activity	Description	Time Limit
1. Ice-Breaker: What's Ethical in Business?	Students share their views on business ethics.	20 min.
2. Class Discussion: Ethical Judgment Making	Students discuss how ethical norms affect ethical judgments.	15 min.
3. Up for Debate: Can Ethics Be Taught?	Students discuss varying opinions on ethics training as a class.	30 min.

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CHAPTER OUTLINE

Learning Objective 2-1

Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.

Ethics in the Workplace

Ethics are beliefs about wrong and right or bad and good; **ethical behavior** conforms to individual beliefs and social norms about what is right and good. **Business ethics** refers to ethical or unethical behaviors by employees in the context of their jobs.

A. Individual Ethics

Ethics are based on individual beliefs and social concepts; thus, they vary by person, situation, and culture.

1. **The Law, and the Real World.** Societies adopt formal laws that reflect ethical standards; however, real-world situations are sometimes difficult to interpret.

2. **Individual Values and Morals.** Individuals' personal codes of ethics are determined by a combination of factors, beginning in childhood. Over time, peers and experiences that contribute to ethical beliefs and behavior influence individuals.

B. Business and Managerial Ethics

Managerial ethics are the standards of behavior that guide individual managers in their work.

1. **Behavior Toward Employees.** This category covers hiring and firing, wages and working conditions, and privacy and respect.

2. **Behavior Toward the Organization.** Conflict of interest, confidentiality, and honesty are ethical issues. A **conflict of interest** occurs when an activity may benefit the individual to the detriment of the organization. Many organizations have policies that forbid buyers and other personnel from accepting gifts from suppliers or customers, thus avoiding even the appearance of bribery. Padding expense accounts, and taking office supplies for personal use are examples of problems in the honesty area.

3. **Behavior Toward Other Economic Agents.** Ethics also comes into play in the relationship between the firm and a number of primary agents of interests, such as customers, suppliers, competitors, stockholders, dealers, and unions. In 2009, Bernard Madoff's Ponzi scheme (investment scam) cost hundreds of clients their life savings as he led them to believe that their investments were safe. Cultural norms may indicate that behavior in one country is ethical, while in another country it is unethical. As an example, bribes may be a normal part of doing business in some countries, but illegal in other countries.

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C. Assessing Ethical Behavior

1. A simple process that is often recommended when making ethical decisions is for the person to (1) gather relevant factual information, (2) analyze the facts to determine the most appropriate moral values, and (3) make an ethical decision based on the rightness or wrongness of the proposed activity or policy. Although ethical judgments are not always easy to make or even always agreed upon, this process does at least give a good starting point for an ethical decision making process.

Ethical *norms* include:

1. **Utility:** Does a particular act optimize the benefits to those who are affected by it?
2. **Rights:** Does it respect the rights of all individuals involved?
3. **Justice:** Is it consistent with what's fair?
4. **Caring:** Is it consistent with people's responsibilities to each other?

D. Company Practices and Business Ethics

Many companies set up codes of conduct and develop clear ethical positions on how the firm and its employees will conduct business. The single most effective step a company can take is to demonstrate top management support of ethical standards.

1. **Adopting Written Codes.** Almost all major corporations have written codes of ethics. While business strategies and practices can change, an organization's core principles and values should not.

2. **Instituting Ethics Programs.** Ethical responses can be learned through experience; companies must take the responsibility for educating employees. More and more companies, like Boeing and ExxonMobil, require managers to go through regular ethics training to remind them of the importance of ethical decision making and to update them on current laws and regulations.

KEY TEACHING TIP

Remind students that *individual ethics* vary by person, situation, and culture. What is acceptable and unacceptable is broad enough that people may develop varying behaviors without violating general standards.

QUICK QUESTIONS

- What people and experiences have helped shape your individual code of ethics?

- What are some examples of conflicts of interest?

Use In-Class Activity 1: **Ice-Breaker: What's Ethical in Business?**
Time Limit: 20 minutes

Use In-Class Activity 2: **Class Discussion: Ethical Judgment Making**
Time Limit: 15 minutes

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Learning Objective 2-2:

Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.

Social Responsibility

Social responsibility refers to the overall way in which a business itself tries to balance its commitments to relevant groups and individuals in its social environment.

A. The Stakeholder Model of Responsibility

Most companies strive to be ethically responsible to five main groups (organizational stakeholders):

1. **Customers.** Critical factors include charging fair prices, honoring warranties, meeting delivery commitments, and standing behind product quality.

2. **Employees.** Treating workers fairly, making them a part of the team, and respecting their dignity and basic human needs promote a company's reputation.

3. **Investors.** Managers must follow proper accounting procedures, provide appropriate information to shareholders, and manage the organization to protect shareholder rights and investments.

4. **Suppliers.** Partnership arrangements with suppliers can enhance market image and firm reputation. Keeping suppliers informed about future plans, negotiating delivery schedules and prices that are acceptable to both firms build relationships with suppliers.

5. **Local and International Communities.** Contributing to local and global programs has a positive impact on the community.

B. Contemporary Social Consciousness

Views toward social responsibility continue to evolve as managers work to meet the needs of various stakeholders in their business practices.

1. The concept of social responsibility has been developing since the days of **John D. Rockefeller, J.P. Morgan,** and **Cornelius Vanderbilt.** The concept of accountability was developed.

2. Unfortunately, the recent spate of **corporate scandals** (Enron, bailouts of banks, GM, and Chrysler) colors the public's perception of business in negative hues. However, with growing concerns about climate change and calls for more sustainable business practices, many businesses at least appear to have again moved toward a more responsible approach to doing business. Firms are integrating socially conscious thinking into their production plans and marketing efforts.

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KEY TEACHING TIP

Remind students that actions deemed unethical in the United States may be ethical in other countries, and vice versa. For example, in some countries outside of the United States, bribing is acceptable and even expected in business.

QUICK QUESTION

- How can companies benefit from adopting a written code of ethics?

Use In-Class Activity 3: **Up for Debate: Can Ethics Be Taught?**
Time Limit: 20 minutes

HOMEWORK

Social Responsibility

Now is a good time to assign Application Exercise 9 from the end-of-chapter materials as homework. This assignment asks students to think about their own personal code of ethics and the ethical framework they use to make decisions.

At-Home Completion Time: 30 minutes

Key Teaching Tip, especially for Online Classes

The End of Chapter activity, **Building Your Business Skills,** *To Lie or Not to Lie: That Is the Question* is a good online assignment. Have students post their responses in Step 1 to the class discussion board. For Step 3, have students work as small virtual teams to draft a corporate code of ethics. Let their fellow classmates critique and post comments.

At-Home Completion Time: 30 minutes for individual assignments and 45 minutes for group project.

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Learning Objective 2-3:

Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.

Areas of Social Responsibility

A. Responsibility Toward the Environment

Controlling pollution is a significant challenge for contemporary business.

1. **Air Pollution:** Under current laws, many companies must install special devices to limit pollutants they expel into the air. Such efforts are expensive.

2. **Water Pollution:** New legislation and increased awareness of chemical and waste dumping and the resulting dangers has led to improved water quality in many areas of the country.

3. **Land Pollution:** Proper **toxic waste** disposal and recycling programs are allowing companies to help restore land quality and to prevent further contamination. **Recycling**, the reconversion of waste materials into useful products, has become an issue not only for municipal and state governments but also for many companies engaged in high waste activities.

B. Responsibility Toward Customers

1. **Consumer Rights:** Consumerism is social activism dedicated to protecting the rights of consumers in their dealings with businesses.

2. **Unfair Pricing:** Collusion occurs when two or more firms agree to collaborate on wrongful acts, such as *price fixing*; *price gouging* occurs when firms respond to increased demand with overly steep price increases.

3. **Ethics in Advertising:** Consumers deserve to be given product information that is truthful and not misleading, as well as information that is not morally objectionable.

C. Responsibility Toward Employees

1. **Legal and Social Commitments:** Recruiting, hiring, training, promoting, and compensating are the basis for social responsibility toward employees; a company that provides its employees with equal opportunities without regard to race, sex, or other irrelevant factors is meeting both its legal and its social responsibilities. A **whistle-blower** is an employee who discovers and tries to end a company's unethical, illegal, or irresponsible actions by publicizing them. Most organizations now have whistleblower policies to protect whistleblowers from retaliation.

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D. Responsibility Toward Investors

Financial Mismanagement: Insider trading occurs when someone uses confidential information to benefit from the purchase or sale of stocks. Misrepresentation of finances is where unethical managers project profits that they do not expect to get or hide losses and expenses incurred to boost paper profits. **Misrepresentation of finances:** In maintaining and reporting its financial status, every corporation must conform to generally accepted accounting principles.

QUICK QUESTIONS

- What are some examples of what companies do to act in a socially responsible way toward customers? Toward employees? Toward investors?

- What are some ways in which organizations act in a socially responsible way toward the environment?

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Learning Objective 2-4:
Identify four general approaches to social responsibility and note the role of social responsibility in small business.

Implementing Social Responsibility Programs

A. Approaches to Social Responsibility

1. **Obstructionist Stance:** Organizations do as little as possible to solve social or environmental problems, have little regard for ethical conduct, and will go to great lengths to deny or cover up wrongdoing.

2. **Defensive Stance:** Organizations will do everything that is required of them legally but nothing more.

3. **Accommodative Stance:** The organization meets its legal and ethical requirements but will also go further in certain cases, such as if it can be convinced that given programs are worthy of its support.

4. **Proactive Stance:** Firms that adopt this approach take to heart the arguments in favor of social responsibility, view themselves as citizens in a society, indicate sincere commitment to improve general social welfare, and surpass the accommodative stance by proactively seeking opportunities to contribute.

B. Social Responsibility and the Small Business

Many big-business responses to ethical and social responsibility issues apply to small businesses; differences are primarily differences of scale. Small business owners are faced by the same ethical dilemmas as the large companies that we more frequently read about. It is important that small companies develop ethical policies and procedures like their larger counterparts. A key to business success is to decide in advance how to respond to the issues that underlie all questions of ethical and social responsibility.

KEY TEACHING TIPS

- Make sure that students understand that firms taking the *obstructionist stance* usually do as *little as possible* to solve social or environmental problems. If possible, list some examples of firms that take such a stance.

- Remind students that firms taking an *accommodative stance* meet their legal and ethical requirements and may even exceed those requirements in certain cases.

- Many corporate acts of social responsibility have been court-ordered. The use of biodegradable packaging, for example, may not be the choice of individual companies but rather mandated by the government as a means to protect the environment.

- Remind students that contemporary social consciousness varies, depending on how

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turbulent the social, political, and economic times are.

- Make sure students understand that social responsibility programs must be initiated and supported by top management; ultimately, a social responsibility program involves *everyone* in the organization.

- Reinforce that small-business responses to social responsibility are similar to big-business responses—the only difference is scale.

HOMEWORK

Identifying Approaches to Social Responsibility

Now is a good time to assign Application Exercise 10 from the end-of-chapter materials in the textbook. The assignment asks students to use newspapers, magazines, and other references to identify one company that take an obstructionist stance to social responsibility, one that takes a defensive stance, one that takes an accommodative stance, and one that takes a proactive stance.

At-Home Completion Time: 1 hour

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Learning Objective 2-5

Explain the role of government in social responsibility in terms of how governments and businesses influence each other.

The Government and Social Responsibility

An especially important element of social responsibility is the relationship between business and government.

A. How Governments Influence Business

The government (national, state, or local) attempts to shape social responsibility practices through both direct and indirect channels. Direct influence most frequently is manifested through *regulation*, whereas indirect influence can take a number of forms, most notably taxation policies.

1. **Direct Regulation:** The government most often directly influences organizations through **regulation**, the establishment of laws and rules that dictate what organizations can and cannot do. This **regulation** usually evolves from social beliefs about how businesses should conduct themselves. Another approach that governments can use to regulate business practices is through legislation.

2. **Indirect Regulation:** Other forms of regulation are **indirect.** For example, the government can indirectly influence the social responsibility of organizations through its tax codes. In effect, the government can influence how organizations spend their social responsibility dollars by providing greater or lesser tax incentives.

B. How Business Influences Government

Just as governments can influence businesses, so too can businesses influence the government.

1. **Personal Contacts:** Because many corporate executives and political leaders travel in the same social circles, personal contacts and networks offer one method of influence.

2. **Lobbying: Lobbying,** or the use of persons or groups to formally represent an organization or group of organizations before political bodies, is also an effective way to influence the government.

3. **Political Action Committees: Political action committees (PACs)** are special organizations created to solicit money and then distribute it to political candidates.

4. **Favors:** Organizations sometimes rely on **favors** and other influence tactics to gain support. Although these favors may be legal, they are still subject to criticism.

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Learning Objective 2-6

Discuss how businesses manage social responsibility in terms of both formal and informal dimensions and how organizations can evaluate their social responsibility.

Managing Social Responsibility

The demands for social responsibility placed on contemporary organizations by an increasingly sophisticated and educated public are stronger than ever. Organizations should view social responsibility as a major challenge that requires careful planning, decision-making, consideration, and evaluation.

A. Formal Organizational Dimensions

1. **Legal Compliance: Legal compliance** is the extent to which the organization conforms to local, state, federal, and international laws. Keep in mind, in some instances, perfectly legal accounting practices have still resulted in deception and other problems.

2. **Ethical Compliance: Ethical compliance** is the extent to which the members of the organization follow basic ethical (and legal) standards of behavior.

3. **Philanthropic Giving: Philanthropic giving** is the awarding of funds or gifts to charities or other worthy causes.

B. Informal Organizational Dimensions

1. **Organization Leadership** and **Culture: Leadership practices** and **organizational culture** can go a long way toward defining the social responsibility stance an organization and its members will adopt. Ethical leadership often sets the tone for the entire organization.

2. **Whistle-Blowing: Whistle-blowing** is the disclosure by an employee of illegal or unethical conduct on the part of others within the organization. How an organization responds to this practice often illustrates its stance on social responsibility.

C. Evaluating Social Responsibility

To make sure their efforts are producing the desired benefits, any business that is serious about **social responsibility** must apply the concept of control to social responsibility. Many organizations now require all employees to read their guidelines or **code of ethics** and then sign a statement agreeing to abide by it. A business should also evaluate how it responds to instances of questionable legal or ethical conduct.

More formally, an organization may actually evaluate the effectiveness of its social responsibility efforts. Additionally, some businesses occasionally conduct a **corporate social audit**, a formal and thorough analysis of the effectiveness of a firm's social performance.

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IN-CLASS ACTIVITIES

In-Class Activity 1: Ice-Breaker: What's Ethical in Business?

Activity Overview:
This exercise asks students to share their views on business ethics.

Time Limit: 20 minutes

What to Do:
1. Ask students to identify examples of recent ethical business practices. Examples: Donating a percentage of profits to charity and community causes (Ben & Jerry's donates 7.5 percent of pretax profits and Levi Strauss donates 2.4 percent of pretax profits to a variety of causes), encouraging employees to volunteer using paid work time (Walt Disney's VoluntEARS program), and recycling (McDonald's has an environmental protection program). (10 minutes)

2. Ask students to identify examples of recent unethical business practices. Examples: Forwarding "marketing research" results to salespeople, marketing R-rated movies to kids, and deliberately selling cigarettes or alcohol to minors. (10 minutes)

Don't Forget:
You might want to come prepared with numerous recent, local examples of ethical and unethical business practices to share with students.

Wrap-Up:
Wrap up the discussion by encouraging students to think about whether these kinds of business practices are consistent with an organization's responsibility to maximize profits, for example, which typically sparks a lively debate.

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In-Class Activity 2: Class Discussion: Ethical Judgment Making

Activity Overview:
This activity asks students to consider ethical norms when making an ethical judgment.

Time Limit: 15 minutes

What to Do:
1. Ask students to review the ethical norms outlined in the textbook: utility, rights, justice, and caring. (5 minutes)

2. Ask students to think of an ethical situation in which these norms did or did not prevail, sharing whatever they can with the class. (10 minutes)

3. During the spring semester, if your college/university has a Dr. Martin Luther King Jr. Observance, you can encourage your students to attend. At the next class period, ask students to discuss Dr. King's civil rights activities and how it changed ethical judgment making in the United States. The discussion can cover historical changes in norms, society's response to the changes, and the impact on individuals' decisions.

   During the fall semester, a Veteran's Day event, a Columbus Day celebration, or an election campaign may provide appropriate opportunities for discussion.

Don't Forget:
You might want to come to class with examples of an ethical situation illustrating each of the norms. This exercise can also be assigned as homework.

Wrap-Up:
Wrap up the discussion by reminding students that with utility, considering what is fair to all relevant parties involved is often based on perception.

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In-Class Activity 3: Up for Debate: Can Ethics Be Taught?

Activity Overview:
This activity asks students to share their opinions on ethics training.

Time Limit: 20 minutes

What to Do:
1. As a class, ask students to consider whether ethics can be taught. Is ethics training valuable or does ethical behavior stem more from how we are raised?

2. For those students who believe that ethics can be taught and that ethics training is valuable, allow 10 minutes for discussion.

3. For those students who believe that ethical behavior comes more from how we are raised and that ethics training really does not affect our ethical behavior in the long run, allow 10 minutes for discussion.

Don't Forget:
As students are supporting or refuting the benefits of ethics training, be sure to have them cite specific examples to back up their opinions.

Wrap-Up:
Wrap up the discussion by reminding students that companies sometimes issue written codes of ethics to ensure their ethical norms are upheld. The effectiveness of such codes of ethics often sparks lively debate as well.

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ANSWERS FOR END OF CHAPTER ACTIVITIES

QUESTIONS FOR REVIEW

2-1. What factors determine an individual's ethics? For you, which factor has been most significant?

Students should address the circumstances of each issue: legal implications, personal codes of ethics, and the effect of the decision on others. They should also refer to the four ethical considerations discussed in the chapter (utility, rights, justice, caring). **(Learning Objective 1 – AACSB – analytical thinking, application of knowledge)**

2-2. When making decisions, who are the stakeholders that a business should consider?

Stakeholders include customers, employees, investors, suppliers, and the firm's local communities. Most businesses should be concerned with all stakeholder groups, although areas of emphasis may differ for individual businesses. **(Learning Objective 2 – AACSB – analytical thinking)**

2-3. What are the major areas of social responsibility with which businesses should be concerned?

The major areas include the environment, customers, employees, and investors. **(Learning Objective 3 – AACSB – analytical thinking)**

2-4. What are the four basic approaches to social responsibility?

The four basic approaches to social responsibility are:

- **Obstructionist**: Does as little as possible to promote social responsibility.
- **Defensive**: Meets minimal legal requirements regarding social responsibility.
- **Accommodative:** Exceeds minimum requirements only by special request.
- **Proactive**: Actively seeks opportunities to contribute to the social environment.

(Learning Objective 4 – AACSB – analytical thinking)

2-5. How does government shape the social responsibility of organizations?

Governments influence organizations through direct and indirect regulation. **(Learning Objective 5 – AACSB – analytical thinking)**

QUESTIONS FOR ANALYSIS

2-6. In your opinion, which area of social responsibility is most important? Why? Are there areas other than those noted in the chapter that you consider important?

Answers will vary, but many students will recognize the importance of balancing the

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attention given to each of the areas. Some companies, such as retailers, will affect the environment little; in these instances, students will likely recognize responsibility toward the customer as being the most important. On the other hand, many students will recognize that manufacturers need to pay particular attention to the environment in the implementation of their production processes. **(Learning Objective 4 – AACSB – application of knowledge)**

- 2-7. What role should government play in social responsibility? Should government create more regulations to encourage businesses to uphold their responsibility to stakeholders? Or, should government take a laissez-faire approach and allow businesses to be only as socially responsible as they choose?

  The relationship between business and government is an especially important element of social responsibility. In planned economies, for example, the government heavily regulates business activities, ostensibly to ensure that business supports some overarching set of social ideals. And even in market economies, there is still considerable government control of business, much of it directed at making sure that business interests do not damage social interests.

  The government (national, state, or local) attempts to shape social responsibility practices through both direct and indirect channels. Direct influence most frequently is manifested through regulation or legislation, whereas indirect influence can take a number of forms, most notably taxation policies.

  Business may very well prefer that government take a laissez-faire approach and allow businesses to be only as socially responsible as they choose. However, if government is to look out for "the greater good," then that approach is not appropriate.

- 2-8. The Foreign Corrupt Practices Act makes it illegal for U.S. firms to bribe government officials in other countries. What challenges could this create for a company doing business abroad?

  The challenges will vary widely from country to country depending on the host country laws. It is an accepted business practice in many countries to bribe government officials to "facilitate" projects. Since this is illegal under the Foreign Corrupt Practices Act, this puts American companies at a disadvantage. If the company does bribe a foreign official there are tremendous ethical as well as legal and financial considerations. **(Learning Objective 5 – AACSB – application of knowledge, ethical understanding and reasoning)**

APPLICATION EXERCISES

2-9. Describe your personal code of ethics. Be sure to include what you think is right and wrong, as well as your ethical framework for making decisions.

Students' personal code of ethics will probably focus on personal relationships, honesty, lying etc. This exercise gives students an opportunity to consider the impact of their ethical behavior. **(Learning Objective 1 – AACSB – application of knowledge)**

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2-10. Using newspapers, magazines, and other business references, identify at least one company that takes each of the four stances to social responsibility: obstructionist, defensive, accommodative, and proactive. For each company, highlight its actions that support your conclusion.

Students should remember that an obstructionist stance is one in which companies usually do as little as possible to solve social or environmental problems, have little regard for ethical conduct, and will go to great lengths to deny or cover up wrongdoing. A defensive stance is one in which companies do everything that is required of them legally, but nothing more. Companies taking an accommodative stance meet their legal and ethical requirements, but also go further in certain cases. Companies taking a proactive stance will go above and beyond what is required of them in meeting the needs of stakeholders. **(Learning Objective 4 – AACSB – application of knowledge)**

BUILDING A BUSINESS: CONTINUING TEAM EXERCISE 2-11 TO 2-14
(Learning Objective 6 – AACSB – application of knowledge, interpersonal relations and teamwork, ethical understanding and reasoning)

This exercise challenges the students to be proactive and think about possible ethical dilemmas their company may face. The team responses will vary but many teams will choose to complete a formal statement of company practices and business ethics since this is a proactive approach to prevent future problems.

The primary stakeholders for most of the teams will be the owners, employees, possible suppliers, and the general public. Many students will choose to develop a formal social responsibility program, recognizing that it is good business where others will see it as a cost with no advantages.

TEAM EXERCISE: TO LIE OR NOT TO LIE: THAT IS THE QUESTION 2-15 TO 2-18
(Learning Objective 1 – AACSB – application of knowledge, ethical understanding and reasoning)

2-15. What personal, social, and cultural factors do you think contribute to lying in the workplace?

Answers will vary, but students may consider such factors as the person's sense of right and wrong, desire for gain at any cost, and culture as possible factors.

2-16. Do you agree or disagree with the following statement: "The term *business ethics* is an oxymoron"? Support your answer with examples from your own work experience or that of someone you know.

Answers will vary based on personal experience, but should cover, at a minimum, the opposing forces that create ethical dilemmas specific to business, such as the over-arching drive to make profits, and a responsibility to society to protect health, the environment, children, etc.

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2-17. If you were your company's director of human resources, how would you ensure compliance with your company's code of ethics?

Answers will vary, but students should mention, in addition to top management's support and example, tangible steps such as specific on-going training at the supervisor and line-worker level, quick responses to violations, and positive reinforcement for compliance.

2-18. Choose an ethical dilemma from Step 1. How would you handle it? How far would you go to maintain your personal ethical standards?

Students' answers will be highly subjective. However, students should, at a minimum, identify the stakeholders and potential harm, as well as the social, communal, and personal values and mores that might be violated. In addition, students should recognize the forces that are pulling in both directions. For instance, in asserting that inflating sales and revenue data on official company statements to increase stock value potentially harms stakeholders and the reputation of the company, students should recognize that shareholders and upper management's constant drive to increase share prices could put undue pressure on financial reporting staff, causing them to make mistakes of judgment. Students should also note the legal issues when responding to the ethical dilemmas.

EXERCISING YOUR ETHICS: THE CASE OF ORPHAN DRUGS
(Learning Objective 2 and 3 – AACSB – application of knowledge, ethical understanding and reasoning)

2-19. Putting yourself in the shoes of the financial manager, which course of action would you recommend?

Answers will vary, but students may notice that defending social responsibility yields personal PR benefits. This also happens on a larger scale to companies that promote social responsibility.

2-20. Are the short-term consequences of your decision different from the long-term consequences? Describe the short- and long-term impacts.

Answers will vary, but many students will likely accept that businesses should act in socially responsible ways as long as such actions are in compliance with the law and meet the needs of stakeholders. Students should observe that while the orphan drugs may not be economically profitable, providing them to the limited customer base might be "socially beneficial" in that the positive publicity the company receives can outweigh the financial implications. In the long term, this can drive customers to favorably view the company. However, economically, the long-term financial impact could be negative. Students should know that pharmaceutical companies already offer financial assistance or reduced pricing to people, even for approved, non-orphan drugs.

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2-21. How could the government encourage companies to commercialize "orphan" drugs that treat or cure rare conditions but are not economically desirable? If you were a member of Congress, would you support government intervention in this situation? Explain.

Answers will vary, but students should note that legislative and regulatory avenues are available to Congress to provide encouragement. Tax incentives are one possibility.

CASES:
SIMPLY DIVINE
(Learning Objectives 3 and 4 – AACSB – application of knowledge, ethical understanding and reasoning)

2-22. While Divine Chocolate has embraced the concept of fair trade, their products are not organic. On their website, they argue that purely organic production methods could result in greater instability in production because cocoa is very disease-prone. Do you think that Divine has an ethical obligation to require farmers to become organic? Why or why not?

Answers will vary. Students should keep in mind the need to balance costs vs. benefits, especially when the stated intent is to improve the livelihood of the farmers.

2-23. How would you describe Divine Chocolate's approach to social responsibility? How do they balance their responsibilities to their stakeholders?

Stakeholders include customers, employees, investors, suppliers, and local communities. Social responsibility includes responsibility toward the environment, customers, employees and investors. Approaches include four stances: obstructionist, defensive, accommodative, and proactive. Students are likely to determine that Divine Chocolate is either accommodative or proactive in its approach. Balancing responsibilities likely focuses heavily on suppliers, communities, and customers, as investors will benefit based on the success of the company's decisions regarding the other stakeholders.

2-24. Do you pay attention to fair-trade products in your own purchasing behavior? For what kinds of products might you be willing to pay a premium price to help those who produce the ingredients?

Answers will vary depending on students' tastes, incomes, etc.

2-25. Under what circumstances might fair trade actually cause harm? To whom? At what point would fair-trade tradeoffs no longer be acceptable?

Fair trade might actually harm the producers if it prices their products out of the market. If consumers deem the price too high, they may simply stop buying fair trade products.

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WHEN MOTHER NATURE STORMS IN
(Learning Objective 5 – AACSB – application of knowledge, ethical understanding and reasoning)

2-26. After Hurricane Sandy hit, Lowe's committed to maintaining prices on emergency goods. Do you think that other retailers acted similarly? Why or why not?

Many students will probably respond that many retailers did not maintain prices but instead took of advantage of the situation. Other students will note that many other retailers acted ethically and responsively.

2-27. Do you think that social responsibility is good for business? What would motivate a profit-seeking company like Whirlpool to incur the expense of donating appliances to the rebuilding effort?

Some students will respond that social responsibility can be good for business since a sincere commitment to improving the general social welfare can generate positive publicity and enhance a company's standing in the community. Others might believe that it is too costly and generates limited returns.

Besides generating goodwill for Whirlpool, the donation was a marketing coup that was highlighted in ads for Whirlpool.

2-28. How would you characterize Home Depot's approach to social responsibility? Be sure to support your conclusion.

Home Depot's approach to social responsibility would be characterized as a proactive stance where companies seek opportunities to contribute to the wellbeing of groups and individuals in its social environment.

2-29. Do you think that U.S. businesses have a greater responsibility to support rebuilding in New Jersey or Haiti? Defend your answer.

Answers will vary but many students will believe that U.S. businesses have a greater responsibility to support rebuilding in New Jersey rather than Haiti.

2-30. What is the appropriate role of government in the event of a natural disaster such as Hurricane Sandy?

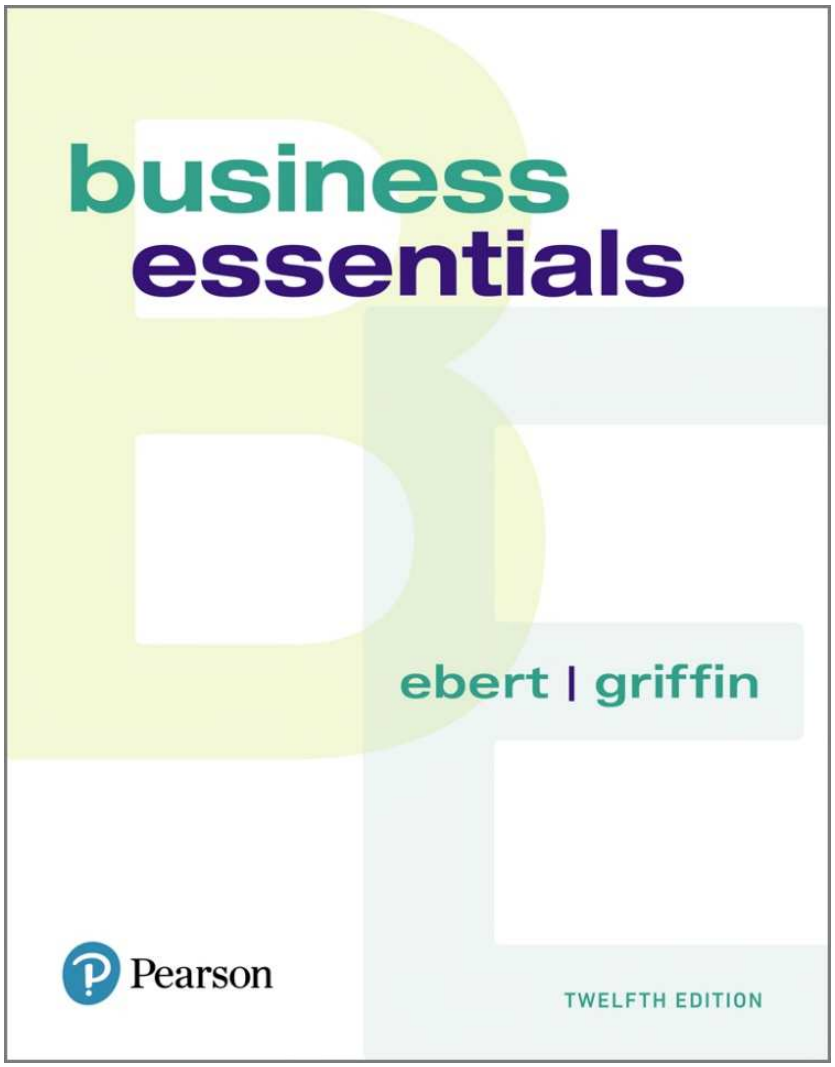
Answers will vary but most students will answer that it is appropriate for the government to take a very active role in recovering from natural disasters. This is an opportunity to challenge students on their attitude toward taxes, government spending, and personal responsibility.

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Business Essentials

Twelfth Edition



Chapter 2

Understanding Business Ethics and Social Responsibility

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Introduction (1 of 2)

- 70% of the world's cacao beans come from small farms throughout the West African nations.
- *Fair trade* refers to programs designed to ensure that export-dependent farmers in developing countries receive fair prices for their crops.



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Introduction (2 of 2)

- **In this chapter, we'll look at ethics and social responsibility—**
  - what they mean
  - how they apply to environmental issues and to a firm's relationships with its customers, employees, and investors
  - approaches to social responsibility
  - steps businesses must take to implement social responsibility programs

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Learning Objectives (1 of 2)

1. **Explain** how individuals develop their personal codes of ethics and why ethics are important in the workplace.
2. **Distinguish** social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.
3. **Show** how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.

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Learning Objectives (2 of 2)

4. **Identify** four general approaches to social responsibility and note the role of social responsibility in small business.
5. **Explain** the role of government in social responsibility in terms of how governments and businesses influence each other.
6. **Discuss** how businesses manage social responsibility in terms of both formal and informal dimensions and how organizations can evaluate their social responsibility.

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Ethics in the Workplace (1 of 2)

- **Ethics**
  - beliefs about what is right and wrong or good and bad in actions that affect others
- **Business ethics**
  - refers to ethical or unethical behaviors by employees in the context of their jobs

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Ethics in the Workplace (2 of 2)

- **Ethical behavior**
  - behavior that conforms to individual beliefs and social norms about what's right and good
- **Unethical behavior**
  - behavior that conforms to individual beliefs and social norms about what is defined as wrong and bad

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Business and Managerial Ethics

- **Managerial Ethics**
  - standards of behavior that guide individual managers in their work
    - Behavior toward Employees
    - Behavior toward the Organization
    - Behavior toward Other Economic Agents

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Assessing Ethical Behavior

1. Gather the relevant factual information.
2. Analyze the facts to determine the most appropriate moral values.
3. Make an ethical judgment based on how right or wrong the proposed activity or policy is.

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Ethical Norms (1 of 2)

1. **Utility**
   - Does a particular act optimize the benefits to those who are affected by it? (That is, do all relevant parties receive “fair” benefits?)
2. **Rights**
   - Does it respect the rights of all individuals involved?

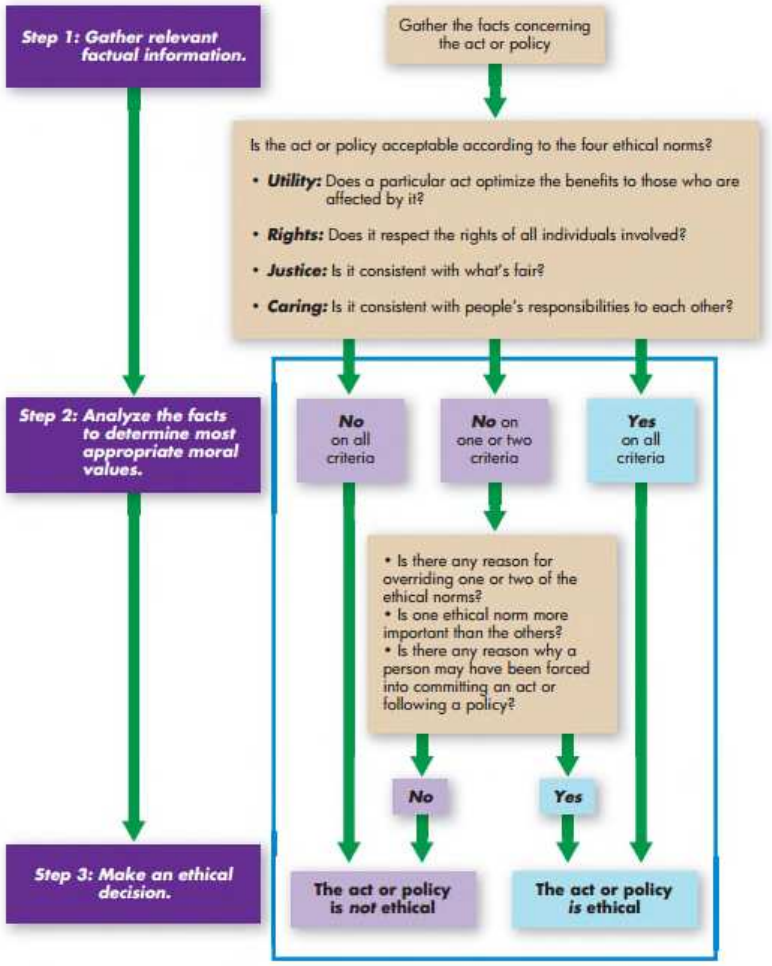
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Ethical Norms (2 of 2)

3. **Justice**
   - Is it consistent with what's fair?
4. **Caring**
   - Is it consistent with people's responsibilities to each other?

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Model of Ethical Judgment Making



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Company Practices and Business Ethics

Two of the most common approaches to formalizing top management commitment to ethical business practices:

- Adopting written codes
- Instituting ethics programs

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Core Principles and Organizational Values

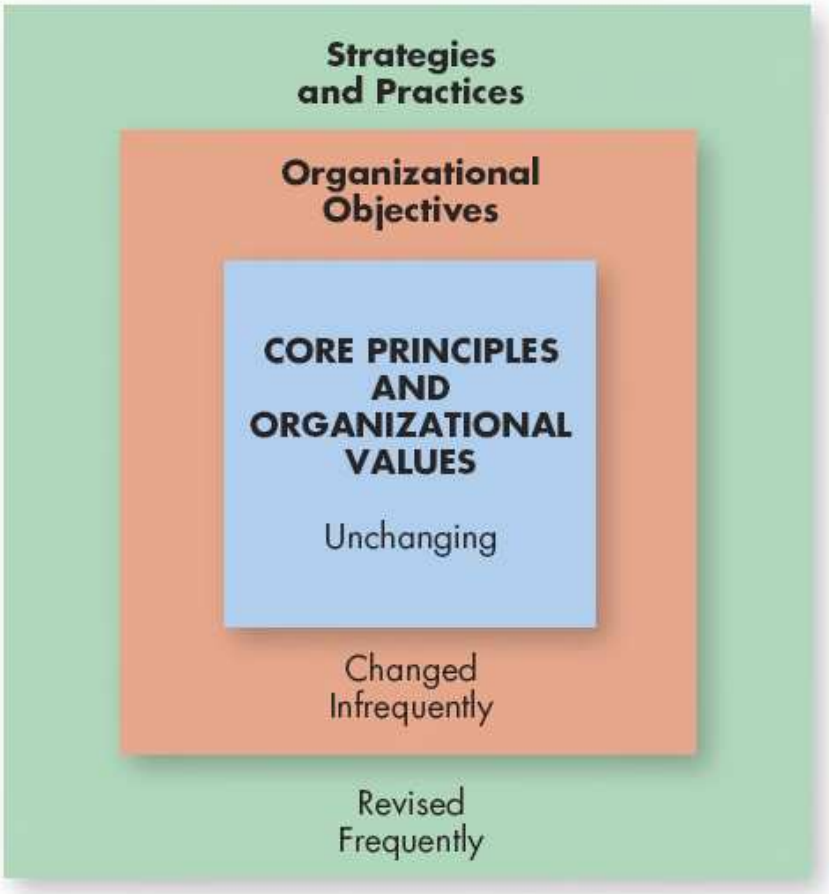


FIGURE 2.2 Core Principles and Organizational Values

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Social Responsibility (1 of 2)

- **Social responsibility**
  - refers to the overall way in which a business attempts to balance its commitments to relevant groups and individuals in its social environment

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Social Responsibility (2 of 2)

- **Organizational Stakeholders**
  - those groups, individuals, and organizations that are directly affected by the practices of an organization and who therefore have a stake in its performance

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Major Corporate Stakeholders

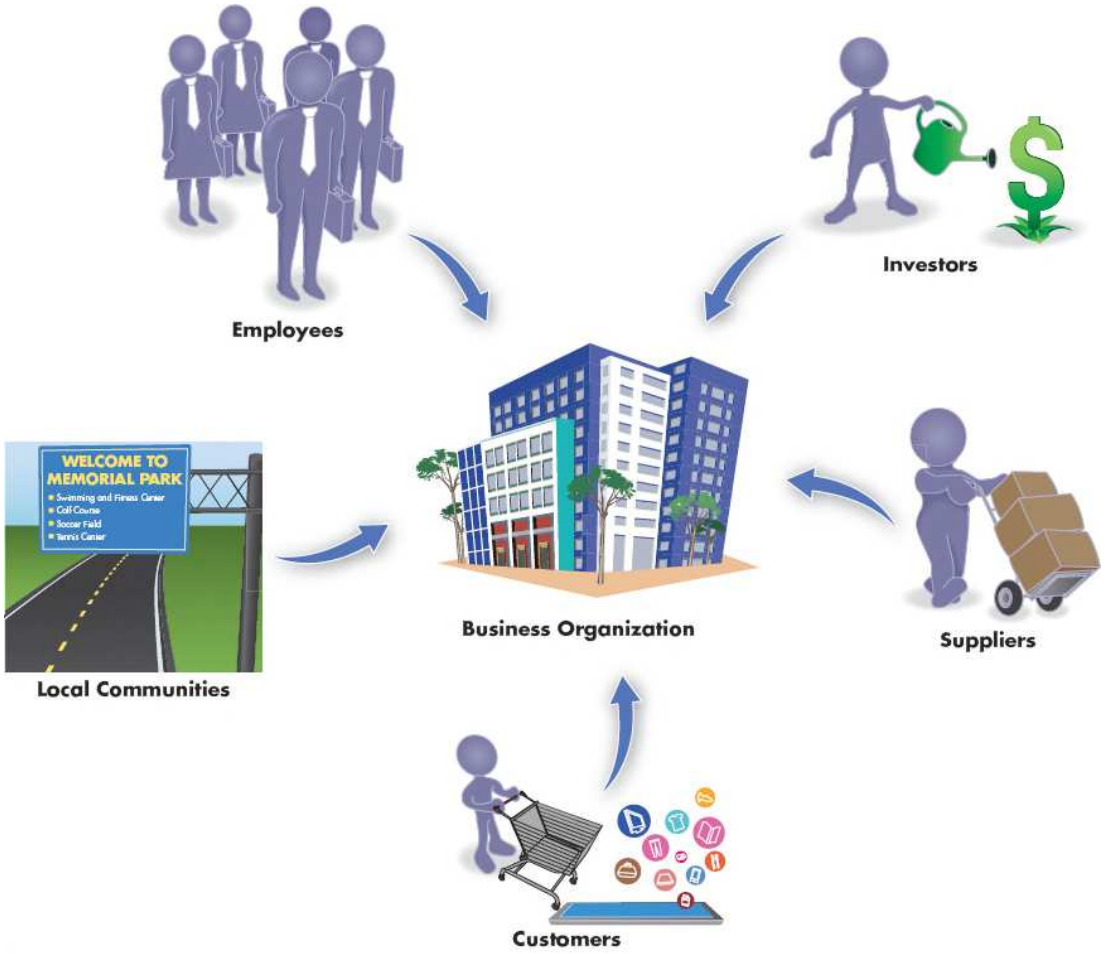


FIGURE 2.3 Major Corporate Stakeholders

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The Stakeholder Model of Responsibility (1 of 2)

Most companies that strive to be responsible to their stakeholders concentrate first and foremost on five main groups:

- Customers
- Employees
- Investors
- Suppliers
- Local communities where they do business

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The Stakeholder Model of Responsibility (2 of 2)

- **Customers**
  - Treat customers fairly and honestly
- **Employees**
  - Treat employees fairly and respect their dignity and basic human needs
- **Investors**
  - Follow proper accounting procedures; provide information to shareholders about financial performance

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Responsibility toward Customers

- **Consumer rights**
  - Consumerism – social activism dedicated to protecting the rights of consumers in their dealings with businesses
- **Unfair pricing**
  - Collusion – two or more firms collaborate on such wrongful acts as price fixing
  - Price gouging

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Responsibility toward Employees (1 of 2)

- Provide opportunities to balance work and life pressures and preferences
- Help employees maintain job skills
- Treat terminated or laid-off employees with respect and compassion

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Responsibility toward Employees (2 of 2)

- A company that provides its employees with equal opportunities without regard to race, sex, or other irrelevant factors is meeting both its legal and its social responsibilities

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The Stakeholder Model of Responsibility

- **Suppliers**
  - Create mutually beneficial partnership arrangements with suppliers
- **Local and International Communities**
  - Involvement in programs and charities

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Contemporary Social Consciousness

- **The Concept of Accountability**
  - The expectation of an expanded role for business in protecting and enhancing the general welfare of society

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Responsibility toward the Environment

- Air pollution
- Water pollution
- Land pollution
  - Toxic waste disposal
  - Recycling

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Consumerism

- **Consumerism**
  - a form of social activism dedicated to protecting the rights of consumers in their dealings with businesses
- **Collusion**
  - illegal agreement between two or more companies to commit a wrongful act

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The Elements of Green Marketing

Table 2.1 The Elements of Green Marketing

- Production Processes Businesses, such as Ford Motors and General Electric, modify their production processes to limit the consumption of valuable resources such as fossil fuels by increasing energy efficiency and reducing their output of waste and pollution by cutting greenhouse gas emissions.
- Product Modification Products can be modified to use more environmentally friendly materials, a practice S. C. Johnson encourages with its Greenlist of raw materials classified according to their impact on health and the environment. Committed to only using the safest materials on this list, S. C. Johnson eliminated 1.8 million pounds of volatile organic compounds from its glass cleaner Windex.[24]
- Carbon Offsets are used by some companies that are committed to replenishing, repairing, or restoring those parts of the environment that are damaged by their operations, especially those that produce carbon dioxide (CO2). In 2007, Volkswagen began a program of planting trees in the so-called VW Forest in the Lower Mississippi Alluvial Valley to offset the CO2 emissions of every car they sell.[25]
- Packaging Reduction, for example, reducing and reusing materials used in packaging products, is another important strategy of green marketing, which Starbucks has pioneered. In 2004, the FDA gave the coffee retailer the first-ever approval to use recycled materials in its food and beverage packaging. Starbucks estimates that using cups composed of 10 percent recycled fibers reduces its packaging waste by more than 5 million pounds per year.[26]
- Sustainability, using renewable resources and managing limited resources responsibly and efficiently, is an important goal for any business pursuing a green policy. For example, Whole Foods Market is committed to buying food from farmers who use sustainable agriculture practices that protect the environment and agricultural resources, such as land and water.

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Consumer Bill of Rights



FIGURE 2.4 Consumer Bill of Rights

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Responsibility toward Investors

- **Insider trading**
  - using confidential information to gain from the purchase or sale of stocks
- **Misrepresentation of finances**

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Approaches to Social Responsibility (1 of 3)



FIGURE 2.5 Spectrum of Approaches to Corporate Social Responsibility

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Approaches to Social Responsibility (2 of 3)

- **Obstructionist Stance**
  - involves doing as little as possible and may involve attempts to deny or cover up violations
- **Defensive Stance**
  - company meets only minimum legal requirements in its commitments to groups and individuals in its social environment

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Approaches to Social Responsibility (3 of 3)

- **Accommodative Stance**
  - a company, if specifically asked to do so, exceeds legal minimums in its commitments to groups
- **Proactive Stance**
  - a company actively seeks opportunities to contribute to the well-being of groups and individuals in its social environment

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Social Responsibility and the Small Business

- For small businesses, ethical issues are questions of individual ethics
- But in questions of social responsibility, they must ask themselves if they can afford a social agenda

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Top 25 Corporate Foundations (1 of 3)

Rank	Name/(State)	Total Giving	As of Fiscal Year End Date
1	Novartis Patient Assistance Foundation, Inc. (NJ)	$456,825,176	12/31/2014
2	Wells Fargo Foundation (CA)	189,380,780	12/31/2014
3	The Bank of America Charitable Foundation, Inc. (NC)	175,729,430	12/31/2014
4	The Wal-Mart Foundation, Inc. (AR)	168,582,621	01/31/2014
5	The JPMorgan Chase Foundation (NY)	130,855,483	12/31/2013
6	GE Foundation (CT)	108,401,652	12/31/2014
7	The Coca-Cola Foundation, Inc. (GA)	90,518,700	12/31/2014
8	Citi Foundation (NY)	78,000,000	12/31/2014
9	ExxonMobil Foundation (TX)	975,212,563	12/31/2014

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Top 25 Corporate Foundations (2 of 3)

Rank	Name/(State)	Total Giving	As of Fiscal Year End Date
10	Bayer U.S. Patient Assistance Foundation (PA)	58,474,547	11/30/2014
11	George Lucas Family Foundation (CA)	55,486,655	12/31/2014
12	Caterpillar Foundation (IL)	49,640,075	12/31/2014
13	The PNC Foundation (PA)	48,597,927	12/31/2014
14	Johnson & Johnson Family of Companies Foundation (NJ)	46,445,669	12/31/2013
15	The UPS Foundation (GA)	42,895,860	12/31/2013
16	MetLife Foundation (NY)	41,068,034	12/31/2014
17	Intel Foundation (OR)	39,047,597	12/31/2014

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Top 25 Corporate Foundations (3 of 3)

Rank	Name/(State)	Total Giving	As of Fiscal Year End Date
18	Publix Super Markets Charities (FL)	38,602,791	12/31/2014
19	The Goldman Sachs Foundation (NY)	37,245,807	12/31/2014
20	Emerson Charitable Trust (MO)	36,181,743	09/30/2014
21	The Prudential Foundation (NJ)	34,835,423	12/31/2014
22	General Motors Foundation, Inc. (MI)	30,821,026	12/31/2014
23	The Merck Company Foundation (NJ)	30,691,387	12/31/2014
24	Verizon Foundation (NJ)	30,628,914	12/31/2014
25	Ford Motor Company Fund (MI)	30,222,388	12/31/2014

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The Government and Social Responsibility

- **Regulation**
  - the establishment of laws and rules that dictate what organizations can and cannot do
  - Direct
  - Indirect

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How Organizations Influence Government

- **Political Action Committees (PACs)**
  - special organizations created to solicit money and then distribute it to political candidates
- **Lobbying**
  - the use of persons or groups to formally represent an organization or group of organizations before political bodies

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Formal Organizational Dimensions (1 of 2)

- Legal Compliance
  - the extent to which the organization conforms to local, state, federal, and international laws
- Ethical Compliance
  - the extent to which the members of the organization follow basic ethical (and legal) standards of behavior

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Formal Organizational Dimensions (2 of 2)

- Philanthropic giving
  - the awarding of funds or gifts to charities or other worthy causes

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Evaluating Social Responsibility

- **Corporate Social Audit**
  - systematic analysis of a firm's success in using funds earmarked for meeting its social responsibility goals

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Applying What You've Learned (1 of 2)

1. Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.
2. Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.
3. Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.

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Applying What You've Learned (2 of 2)

4. Identify four general approaches to social responsibility and note the role of social responsibility in small business.
5. Explain the role of government in social responsibility in terms of how governments and businesses influence each other.

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