Canadian Business and Society Ethics Responsibilities and Sustainability (Canadian) 4th edition Sexty Solutions Manual

SKU: 9781259087547-SOLUTIONS

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Instructor's Manual
Canadian Business and Society
Ethics, Responsibilities and Sustainability 4e

Chapter 2 – Ethics and Capitalism

The purpose of this chapter is to expose students to the economic environment, and specifically to capitalism. Students must be familiar with the fundamentals of capitalism as they are at the root of many issues and responsibilities faced by business.

CHAPTER GUIDE

Use of the "What would you do if …?" Vignette

Comments for Instructors

Income inequality has become a widely discussed and examined issue in society not only in Canada about around the world.

Questions that might be posed are:

- Who is responsible for the dissatisfaction with the current economic, social and political systems?
- Are the grievances legitimate?
- What grievances can be attributed to the capitalistic economic system in the United States and Canada?
- What grievances can be attributed to governments and to business?
- What danger is this dissatisfaction to the business system in Canada?
- What should Stephen do? A class vote might lead to interesting results!

An assignment or debate topic is: Should the rich be taxed more? This is often proposed as a solution to income inequality.

The following are some discussion points under the Yes and No positions:

Yes. Tax them!	No. Does not make sense!
• Would raise a lot of revenue • Will reduce inequality by supporting social programs • Everyone must pay their share (aspect of social contract with society) • Inequalities weaken the economy, undermine our democracies, and destabilize societies • Extreme inequality is socially unjust	• Does not raise much revenue; in fact some claim will raise more by cutting taxes (Laffer curve) • Does not help lower income earners • Government already trying to reduce inequality through social programs and progressive taxation • Encourages use of loopholes and transfers to offshore locations, that is,

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and politically dangerous • In furthers social justice and equal opportunities • Middle class is being reduced as a result of transfer to the rich • Some claim the high taxes on the rich leads of economic growth	hiding of income • All (low and middle income) in society are richer than they think as enjoy high standard of living • Discourage job creation as rich do not start as many businesses and invest less in innovation • It is punishment for success and reduces the incentive to work

Refer to Section LO 2.4 and the Connect "Want to learn more about inequality and why it is an issue for business?"

Refer to Your Advice to Stephen… .

LO2.1 Introduction

Enumerate and discuss the eight fundamentals of a capitalist business system.

This section is to make the point that a capitalistic, market system provides a majority of goods and services to Canadians. Students might be asked, "What goods and services did you receive from business today?" This leads into the first *Everyday Ethics* insert.

Everyday Ethics 2.1: How Business Works for You

The list provided could be extended. The point being made is the extensiveness of business in our daily lives, including students' lives. Of particular interest is the fact that government does not provide many consumer goods or services. There are exceptions, for example health care and publically financed education.

LO2.2 The Right of Private Property

Define the right of private property and identify ethical implications associated with it.

Everyday Ethics 2.2: First Nations and Property Rights

This Everyday Ethics insert is longer than most as the issue is complicated. Property is considered differently in societies as property is viewed as belonging to the community or a collective. Converting from collective to individual property rights is challenging. Most students will not appreciate the differences.

Note that fee simple estate is the highest form of private property ownership. However, government can still regulate land use, collect property taxes, and expropriate land for public purposes.

UPDATE: In May 2016, Nunavut held a plebiscite on whether or not municipalities be

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allowed to sell land to private citizens or business corporations. The municipalities would be able release land for a fee-simple ownership which is common in Canada. Those arguing for the change claimed that it would create a private-sector real estate market which would encourage investment in the housing sector leading to more and cheaper home construction. The proposal for private land sales was rejected by 80 percent of those who voted.

Supplementary Material:

Canadian Intellectual Property Office

As students may not be familiar with intellectual property, a useful Canadian resource is the Canadian Intellectual Property Office which describes five types:

- Patents
- Trade-marks
- Copyrights
- Industrial Designs

The intellectual properties that students are most likely to encounter are copyrights, trade-marks, and industrial design. Brief descriptions of each are available at: http://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/Home.

CONNECT: Want to learn more about intellectual property?

Intellectual property has been, and will continue to be, as major issue in business and society.

You may not be aware of the existence and extent of intellectual property issue. The property involved is intangible, unlike land and buildings upon which traditional property rights was based. You may be violating intellectual property laws in downloading entertainment and copying materials. Also, it is possible to have purchased counterfeited or pirated goods of designer name products and computer software.

Have you violated any intellectual property rights in the past week?
What are the ethical implications?
Whom did you harm as a result?

More information is available at:

- The Canadian Intellectual Property Office is a source for more information at: http://strategis.ic.gc.ca/sc_mrksv/cipo/corp/corp_main-e.html.
- Intellectual property case studies are available at: http://www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr01947.html. Some involve ethical issues.

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Economies are impacted by globalization and technological advances increasing the importance of another type of private intellectual property. The World Intellectual Property Organization is attempting to have international treaties established to protect intellectual property considered a key to innovation in a knowledge based economy. In the past, there have been debates about the value of personal property rights versus providing incentives for innovation and investment, and about governments granting and removing monopoly rights. These debates will continue as the economy moves more toward property rights based on the concept of intellectual property.

LO2.3 Individualism and Economic Freedom

Explain individualism and economic freedom and related ethical implications.

Two web sites provide more information on economic freedom measures:

- "Free the World" (Economic Freedom Network): http://www.freetheworld.com/
- "Index to Economic Freedom" (Heritage Foundation and *Wall Street Journal*): http://www.heritage.org/index/

These sites define the freedoms and describe how they are calculated. Students are always interested in the economic freedoms not only for Canada but for other countries. Accessing either site provides country rankings. Also, international students can access the rankings for their countries and compare them to Canada's.

Responsibility for Ethics 2.1: Economic Freedoms

This is a general listing of the factors of economic freedoms. The two sources listed above differ in how economic freedom is measured. Use of one or the other as indicated above is sufficient.

Access the two freedom measures for recent rankings. In the "Free the World" measure Canada was tied for 9th place and in the "Index to Economic Freedom" 6th in the rankings available in April 2016.

LO2.4 Equality of Opportunity

Define equality of opportunity and elaborate upon the ethical implications for business.

It is important to make the distinction between "equality of opportunity" and "equality of results." Many media stories focus on the latter, but few on the former. The equality of opportunity is a lesser known fundamental of capitalism but is being illustrated in some developing countries as their economic systems begin to adapt a market system. Of course, a criticism of capitalism is inequality of results, that is, not everyone receives the same economic benefits. One reason for this is that everyone does not have the equality of opportunity.

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CONNECT: Want to learn more about inequality and why it is an issue for business?

Many types of inequality occur as mentioned in Responsibility for Ethics 2.2. The form of inequity receiving a lot of attention in the media is economic or income inequity which is also the topic for the vignette at the beginning of this Chapter.

There are several reasons why income inequity is an important issue for business:

- If Canadians are better off financially, there will be higher consumer spending of the goods and services provided by Canadian business.
- If income inequity is deduced, government would devote fewer resources to it in turn reducing the demand for higher corporate taxation.
- Income inequity could lead to social and economic instability, or at the least, demands by lower income earners for fairer wages or social assistance.
- It should be viewed as the right thing to do from a moral perspective.

There have been several approaches proposed to reduce income inequity and to reduce poverty, including:

- Establishing a system of living wages, the minimum earnings that allow full-time workers to meet the basic needs of their families and to reach past low-income tax thresholds.
- Creating a guaranteed minimum income, also known as universal basic income, basic income guarantee or negative income tax. Everyone would receive unconditional cash transfers that would guarantee a minimum income.
- Increase minimum wages, that is, the lowest wage rates legislated by governments
- Raise taxes paid by high earners, especially the top 1%.
- Raise taxes on corporations.

The issue has been covered extensively in the media in recent years. NGOs and business supported think tanks have addressed the issue and several references at given blow. Governments have studied the issue and it is also a global issue research by the Organization of Economic Co-operation and Development, the International Monetary Fund, World Bank, Oxfam, and the United Nations.

Selected Canadian References on Income Inequity

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- Charles Lammam, The Economic Effects of Living Wage Laws, Fraser Institute, January 2014, available at https://www.fraserinstitute.org/studies/economic-effects-of-living-wage-laws.
- Robert P. Murphy, Charles Lammam, and Hugh MacIntyre, Raising the Minimum Wage: Misguided Policy, Unintended Consequences, Fraser Institute, March 2016 available at https://www.fraserinstitute.org/studies/raising-the-minimum-wage-misguided-policy-unintended-consequences#sthash.EEIll1ab.dpuf
- Alexandre Laurin, Shifting the Federal Tax Burden on the One-Percenters: A Losing Proposition, C.D. Howe Institute, December 2015 available at https://www.cdhowe.org/public-policy-research/shifting-federal-tax-burden-one-percenters-losing-proposition.
- David A. Green, W. Craig Riddell and France St-Hilaire (Editors), Income Inequality: The Canadian Story, The Institute for Research on Public Policy, February 2016 available at http://irpp.org/research/income-inequality/.
- "Growing Gap," Canadian Centre for Policy Alternatives, various reports at https://www.policyalternatives.ca/projects/growing-gap.
- "A Living Wage for Families," web site with various reports at http://www.livingwageforfamilies.ca/.
- Jeremy Runnalls, "The simplest way to tackle poverty," Corporate Knights web site on March 16, 2016 available at http://www.corporateknights.com/channels/leadership/the-simplest-way-to-tackle-poverty-14581080/.
- "Is Canada becoming more unequal?," Conference Board of Canada web site available at http://www.conferenceboard.ca/hcp/hot-topics/caninequality.aspx.

Supplementary Material:

Principles for Responsible Management Education (PRME): Working Group on Poverty

"Launched at the 2007 UN Global Compact Leaders Summit in Geneva, the Principles for Responsible Management Education (PRME) initiative is the first organised relationship between the United Nations and business schools, with the PRME Secretariat housed in the UN Global Compact Office.

The mission of PRME is to transform management education, research and thought leadership globally by providing the Principles for Responsible Management Education framework, developing learning communities and promoting awareness about the United Nations' Sustainable Development Goals." The PRME web site is at http://www.unprme.org/.

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The six principles are reproduced in Responsibility for Ethics 16.2: The Six Principles of Responsible Management Education, Section LO 16.5. They are available at http://www.unprme.org/about-prme/the-six-principles.php.

PRME Working Groups develop and publish resources relevant to increasing Responsible Management Education. The list of Working Groups is available at http://www.unprme.org/working-groups/working-groups.php and cover a wide range of issues related to business and society. One of the issues addressed is poverty as a challenge for management education.

PRME Working Group Poverty, a Challenge for Management Education

The Working Group can be accessed at http://www.unprme.org/working-groups/display-working-group.php?wgid=824. The site contains teaching materials including: surveys, reports, books, conferences, workshops, meetings, webinars and videos. Academics are invited to join the group and to make contributions.

Responsibility for Ethics 2.2: Business' Responsibility for Gender Equality

This insert pays particular attention to gender equality which also involves income inequality. Advocates of gender equality argue that achieving gender equality would greatly reduce income inequality.

Supplementary Material:

Principles for Responsible Management Education (PRME): Working Group on Gender Equality

"Launched at the 2007 UN Global Compact Leaders Summit in Geneva, the Principles for Responsible Management Education (PRME) initiative is the first organized relationship between the United Nations and business schools, with the PRME Secretariat housed in the UN Global Compact Office.
The mission of PRME is to transform management education, research and thought leadership globally by providing the Principles for Responsible Management Education framework, developing learning communities and promoting awareness about the United Nations' Sustainable Development Goals." The PRME web site is at http://www.unprme.org/.

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http://www.unprme.org/working-groups/working-groups.php and cover a wide range of issues related to business and society. One of the issues addressed is gender equality.

PRME Working Group on Gender Equality

More information on the working group is available at http://www.unprme.org/working-groups/display-working-group.php?wgid=2715. This site contains a teaching resource repository including discussion papers, concept notes, webinars, and list of relevant books. Academics are invited to join the group and to make contributions.

Supplementary Material:

Gender Wage Gap

Considerable attention has been given to the wage gap as it relates to gender inequality. Statistics Canada estimates that the wage gap between men and women ranges from 12 to 31.5 percent. Royal Canada of Canada estimates that $168-billion a year is needed to close the gap.

Additional information available from:

- Report of the Human Resources Professionals Association (HRPA) entitled "CLOSING THE GENDER WAGE GAP: A Review and Recommendations published in June 2016 and accessible at https://www.hrpa.ca/Documents/Membership/Public-Affairs/HRPA-Closing-The-Gender-Wage-Gap-2016.pdf.
- OCED report "Closing the Gender Gap: Canada" accessible at https://www.oecd.org/canada/Closing%20The%20Gender%20Gap%20-%20Canada%20FINAL.pdf. Full OCED report "Closing the Gender Gap: Act Now" accessible at http://www.oecd.org/gender/closingthegap.htm. Published in 2012.
- "Closing the Gender Wage Gap," Ontario Ministry of Labour accessible at https://www.labour.gov.on.ca/english/about/gwg/consultation.php. Published in 2015.

LO2.5 Competition

Describe the competition fundamental and link ethical implications to it.

Competition can result in cruel and cut throat behaviour. But, its benefits should not be underestimated. In particular, consumers (including students) benefit from it!

Everyday Ethics 2.3: Competition, Espionage and Ethics

This Everyday Ethics illustrates the consequences when there strong competition between corporations within an industry.

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The case continues and in December 2015, CN accused a CP executive of aiding and encouraging subordinates to use confidential client information taken from CN (which may have been done "unlawfully).

Discussion Questions:

- Should employees be allowed to use proprietary knowledge gained at a previous employer when they obtain employment with a competitor?
- What are the ethical issues involved? Which stakeholders benefit and which are harmed?

LO2.6 Profits

Understand profits and the associated ethical implications.

This is another controversial fundamental. Note the relationship between competition and profits. If competition is effective, there should be no excessive profits.

Everyday Ethics 2.4: Banking Industry Profits—Reasonable or Excessive?

Depending upon the year students are in, it might be pointed out that these figures are absolute ones, and measures such as return on equity, revenues, or assets are not provided. To make the issue more personal, indicate that banking industry profits may be so large because various bank charges and interest rates are too high.

At various times, there have been demands to impose higher taxes on bank profits.

Discussion Questions:
Are banking industry profits too high?
Are bank charges and interest rates justifiable?

LO2.7 The Work Ethic

Link the work ethic to ethical implications.

This is another fundamental that is frequently neglected in the discussion of capitalism.

Responsibility for Ethics 2.2: Work Ethic of the Millennials

Discuss with students their work ethic. After identifying differing points of view, conduct a vote to ascertain the position of students. Another possibility is to hold a debate with a resolution such as: Resolved that millennials have a poor work ethic.

More information can be obtained by searching "Millennials" or "Millennials Work Ethic." Examples of information available: "Managing Millennials: Eleven Tips for Managing Millennials" at

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http://humanresources.about.com/od/managementtips/a/millenials.htm, and "Myths About Millennials" at http://humanresources.about.com/od/managementtips/a/millennial_myth.htm.
There has been substantial discussion in the print media about millennials from different perspectives in addition to employment. Also, substantial materials are available from the Internet.

Supplementary Material:

Clarifying the Names of Generations

So many names have been assigned to generations that it can be confusing. The following is a list with the appropriate dates and other names assigned:

- Generation Z: 1994 - 2010
- Millennials: 1980 – 1995 [also known as Generation Y, Baby Boom Echo, Boomerang Kids]
- Generation X: 1967 – 1979 [also known as Baby Bust]
- Baby Boomers: 1947 - 1966

LO2.8 Consumer Sovereignty

Define consumer sovereignty and understand related ethical implications.

The theory that consumers have power and even control of the marketplace should be obvious if free markets exist. The difficulty comes when the markets are restricted in some way.

Responsibility for Ethics 2.3: One Consumer Influences Facebook

It is claimed that the Internet is giving power and influence to consumers as illustrated in this insert. The efforts of Canada's Privacy Commissioner relating to the issue of privacy on Facebook were key to bringing about changes. Visit the Privacy Commissioner's web sites in the "Sources."

Another example is payment to a consumer if bumped off an Air Canada fright due to overbooking. Gabor Lukacs complained to the airline regulator, the Canadian Transportation Authority, about the low payout, $100 cash or a $200 travel voucher. The Agency agreed with Lukacs and has proposed increasing the payout.

Discussion Questions:
Do consumers have power? Has the Internet increased consumer influence?
What have been your experiences with privacy on Facebook or other social media?

LO2.9 The Role of Government

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Explain the role of government in a capitalist business system and what the ethical implications are.

This is a brief discussion of the role of governments and their involvement in the business system. Chapter 10 will discuss the government's approaches to regulating the activities of the corporation.

The point should be made that the role of government shifts over time. The influence of governments around the world increased through most of the 20th century. It was not until the mid-1980s that the influence of governments began to decline.

CONNECT: Want to learn more about business fundamentals and the story of The Little Red Hen?

"The Little Red Hen" is a children's story; there are several versions with different animal characters, and sometimes the "hen" is a rooster. Variations of the story have been written with different messages. The versions we are interested in illustrate several of the fundamentals of capitalism including individualism and the work ethic.

Version #1:

The story is available in text form at: http://www.gutenberg.org/files/18735/18735-h/18735-h.htm, or http://abralite.concordia.ca/pd/en/story5.pdf.

Or, a video is available at: https://www.youtube.com/watch?v=JTCsL26vob4 or https://www.youtube.com/watch?v=smspKuKqt5c

What are the lessons in the story? How are they relevant to business? Is the hen being fair?

Version #2:

"The Modern Little Red Hen & Incredible Bread Machine Retold: Ronald Reagan on Freedom & Capitalism" at https://www.youtube.com/watch?v=V54Srj0Yge8.

Have the lessons in the story changed? What new stakeholder was included in this version? Which version is more applicable to how business and society operates?

LO2.10 The Fundamentals and Various Forms of Capitalism

Define Canadian capitalism and recognize that capitalism exists in different forms around the world.

Capitalism differs around the world and the fundamentals are applied differently.

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Family capitalism, also referred to as crony capitalism, has been receiving some attention. Crony capitalism was mentioned as a variation on family capitalism. According to *The Economist* a new form of crony capitalism has emerged. It is includes circumstances when the owners of production, for example labour or capital, can extract profits that would not be possible if competitive markets existed. Common examples are cartels, monopolies, and lobbying and often involve governments. Crony capitalism can involve corruption, but most often it is legal.

Supplementary Material:

Crony Capitalism

The Economist has developed a crony-capitalism index available at http://www.economist.com/blogs/graphicdetail/2016/05/daily-chart-2 [insert more recent year if applicable]. In 2016 the magazine published an article on crony capitalism: "Our crony-capitalism index: The party winds down," The Economist, May 7th, 2016, 54-56.

Crony capitalism is discussed extensively on the Internet including a YouTube video, What is crony capitalism?, at https://www.youtube.com/watch?v=4DxXHh-p-O4.

Suggested Questions:

1. What are the implications for each of the fundamentals of capitalism?
2. What influence would crony capitalism have on ethics?

Three additional forms are described in this edition:

Conscious Capitalism – A web site is devoted to this form: http://www.consciouscapitalism.org/. Some books have been written about the form and a lot of material is available on the Internet.

Creative Capitalism – More information on Bill Gate's "creative capitalism" is available at on the Internet. Google "creative capitalism definition" and many sites are presented. YouTube has videos on the concept. Ask students to research it and ask what they think of the concept. There are several web sites defining the concept, and a video of Bill Gates explaining is on YouTube.

State Capitalism – This form is not new, but has been receiving more attention recently. For example, *The Economist* had a special report on it, "The visible hand," in the January 21, 2012 issue. Materials are also available on the Internet.

LO2.11The Ethics of Capitalism

Recognize the challenges to presenting the case for the ethics of capitalism.

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The objective to this section captures the main point. Students should appreciate the different types of capitalism and that they have influences on the ethics and responsibilities of business.

The list of challenges is given to illustrate that capitalism is not perfect or without its faults.

Everyday Ethics 2.5: Gordon Gekko's "Greed is Good"

The "Greed is Good" comments appear on YouTube with one at:
http://www.youtube.com/watch?v=vscG3k91s58

Discuss with students the appropriateness of the quotation.
Poll the class to identify how many agree or disagree with the comment.

The financial industry, in particular the banking system, and governments are frequently blamed for the financial crisis. Responsibility for Ethics 2.5 identifies other stakeholders that may have influenced the crisis.

Supplementary Material:

The Pros and Cons of Capitalism

After reading Chapters 1 and 2, you are able to compile a list of the pros and cons of capitalism.

The debate about the advantages and disadvantages of capitalism continues and is one which you as a business student should be prepared to address. The Internet provides hundreds of sites what contribute to the debate. Below are examples of sites that might be helpful in your becoming familiar with the issues involved. The examples of pro and con capitalism sites are advocates for one site of the debate of the other. The examples of sites giving pros and cons provide a more balanced view of capitalism.

Examples of pro capitalism sites:

- "Capitalism.org." http://capitalism.org
- "Top 10 benefits of capitalism" http://listverse.com/2010/12/24/top-10-greatest-benefits-of-capitalism

Examples of anti or con-capitalism sites:

- "Anti-Capitalism" http://anti-capitalism.org
- "Anti-Capitalists" http://anticapitalists.org

Examples of sites giving pros and cons:

- "Pros and cons of capitalism" http://www.buzzle.com/articles/pros-and-cons-of-capitalism.html

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- "Pros and cons of capitalism" http://www.economicshelp.org/blog/5002/economics/pros-and-cons-of-capitalism
- "Pros and cons of capitalism" http://www.philforhumanity.com/Capitalism.html

As a concluding section, the concept of shared value is described as a new view of how business and society can both benefit from a system is sensitive to social responsibility.

Responses to "Critical Thinking and Discussion Questions"

Additional questions relating to the Chapter's material are available in the Appendix 2.1.

1. Identify the intellectual property that you use in your studies? Have you always respected the rights of the owners of this type of private property?

   The most obvious example is this textbook. Also included would be videos and films shown in class as well as many web sites. All reference materials in the library are protected, including books, databases, magazines, and newspapers. One must be careful to reference all materials completely and obtain permission to use. This has been done in this textbook.
   With regard to the second question, students have likely misused someone's intellectual property knowingly or unknowingly. There are both legal and ethical implications when intellectual property is used inappropriately.

2. Should equality of opportunity equal equality of results? What are the implications for business of the inequalities that result under capitalism?

   Equality of results is a goal of socialism or communism. In reality, no socialist system has resulted in complete equality of results as there are always some elites, for example, politicians or the military. Today, Cuba and North Korea illustrate this. It is argued that such economic systems result in almost everyone being poor.

   But, there are challenges to capitalism from equality of opportunity and results. Business must attempt to enable those in society have equal access to opportunities. Business cannot do this alone as government usually assists in some way. The implications of inequality of results are that the system might be challenged by society. When too many in society are under-privileged, the legitimacy of business is questioned.

   Refer to the discussion of the opening vignette.

3. Why doesn't competition exist in some industries, and what are the ethical implications?

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Competition does not always exist for a variety of reasons as mentioned. In theory, the more competitive the industry, the more pressure corporations are under to obtain sales. It can be argued that this would result in questionable practices to obtain sales. But, corporations might react another way. They might constantly innovate in terms of the products offered and the production processes used. This might lead to differentiated and/or less costly products. The former might result in unethical practices; the latter the opposite.

4. Assess the amount of economic freedom in Canada today. How does this freedom, or lack of, influence Canadian businesses?

   Note: Check the most recent index for rankings.
   On the "Free the World" index, Canada ranks within the top 10 in the world for economic freedom.
   It is strongest in "access to sound money" and weakest in "size of government."
   On the "Index to Economic Freedom," Canada ranks 6th in the world. It is strongest in "business freedom," and weakest in "investment freedom" and "freedom from government." The Canadian business system ranks quite well. Note that in both indices, the involvement of government is a problem. After studying the indices, students should reach a similar conclusion.

5. What is the connection between competition and profits?

   In theory, competition regulates profits. If excessive profits are being obtained, new sellers are attracted to the industry and thus lowering profits. It does not always work this way but as a general rule it does.

6. Do you believe that employees no longer possess a genuine work ethic?

   A yes or no response is possible. Enough material is provided to support both positions. It is interesting how students view their own work ethic! A COMPAS Inc. poll of CEOs found that 50% of them gave universities and colleges a near-failing grade for instilling "a strong work ethic" in students. [Source: Wojtek Dabrowski, "Colleges Get Minimum Pass for Work Ethic," *National Post,* January 5, 2004, FP2.]

7. In the Canadian business, is the consumer sovereign?

   The expression "the consumer is king/queen" is often heard. In theory, this is the case. The materials in the chapter support both sides.

8. Is government's role in the Canadian business system increasing or decreasing?

   More about this issue will be available in Chapter 10. Overall, the role of governments has declined in most parts of the world.

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9. What individual and societal values are involved with each of the fundamentals? Values are defined as core beliefs or desires that guide or motivate attitudes and actions.

   The following are some of the values suggested by students in response to this question.

Values Related to Fundamentals

Values are core beliefs or desires that guide or motivate attitudes and actions. In the matrix below, identify the values associated with the fundamentals of business.

Right of Private Property Pride Respect Ambition Security/Control Freedom Dream Inequity Value	**Profits** Greed Success Risk Power Reward Incentive Motivation
Individualism and Economic Freedom Self-determination Self-esteem Ambition/Hard work Individual Choice Independence Inequity Personal freedom Distribution of power Choice	**The Work Ethic** Well-being Honesty Motivation Security Loyalty Pride/Shame Sacrifice Competence Reliability Hard work Required
Equality of Opportunity Fairness Self-determination Creativity Equal playing field Just reward	**Consumer Sovereignty** Choice Threat Influence Freedom Personal preference Quality Democracy
Competition Efficiency Equal opportunity Quality Continuous improvement Value to consumer Winning Risk Ambition Individual choice Regulation Innovation	**The Role of Government** Inequality/Equality Law and order Security Justice Greater good Interference

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Initiative	Survival	Bureaucracy
Aggressiveness	Evil	Regulating
Power	Productivity	Public Interest
Choice	Adversarial	Equity
		Control

10. Does capitalism or the free market system erode moral character?

The John Templeton Foundation has a series of conversations among leading scientists, scholars, and public figures about the "Big Questions" in society and the economy (http://www.templeton.org/bigquestions/). There are short video presentations that can be used in the classroom to present a variety of views relating to the question being discussed. A webcast and transcript are also available. For "Does the free market corrode moral character?", some presenters agree with the question, some disagree, and some are in the middle (http://www.templeton.org/market/). The views are:

Agree	***In Between***	***Disagree***
Hymowitz	*Levy*	*Bhagwati*
Walzer	*Novak*	*Cowen*
	Santorum	*He*
		Ali

Select a diversity of views and use as the basis for a classroom discussion.

11. Is ethical capitalism possible?

Depends who you ask!

Answers to End of Chapter Cases

2.1 Campus Boycotts: Who Makes the Call?

1. How is the equality of opportunity fundamental applicable to the issues in this case?

A particular corporation is not being treated fairly by the boycott. The alleged approach to bargaining suggests that Labatt was deriving some employees of benefits, that is, there would be inequality of opportunity for new employees.

2. How is the consumer sovereignty fundamental applicable to the issues in this case?

Consumers have had their sovereignty taken away from them. Someone else, that is, the student council, has made the decision for them. Consumers themselves should make the decision to boycott by not purchasing the product.

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3. How is the role of government fundamental applicable to the issues in this case?

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Government laws and regulations govern the industrial relations relationship between the employer and employee. The student union is in effect acting as another governing body which has taken upon itself to act. The issue is whether or not the student union executives have the right to make this decision, that is, were they elected with the mandate to make decisions such as this. An alternative would be for the student union recommend that its members boycott the product and leave it available for students who did not agree.

4. What consideration should be given to the following assertions mentioned in the case?

- that Labatt belongs to a foreign multinational corporation
  Multinational corporations are often subject to more criticize as they are "foreign" thus having less right to interfere with local issues. The huge size and profitability of these corporations is not viewed favorably by many in society.
- that the corporation is seeking concessions
  Many would consider this inappropriate action for any corporation.
- that Labatt employees earn much more than the average
  In the economy, employees in some sectors have been able to negotiate more generous compensation. This was possible in the brewing industry because of limited competition as a result of government regulation which restricted the importation of beer (even from other provinces).
- that the Breezeway is viewed as a service to students and loses money
  It might be considered a stretch that operating a bar is a "service" to students. The fact that it is losing money makes even more doubtful. Supplying alcohol is hardly an essential service. The operation of the bar appears to have been problematic suggesting that the business model is not successful.

5. Is MUNSU's decision to boycott Labatt beer justified?

MUNSU might be extending its involvement in the economic system beyond what it is mandated to do especially since there is not explicit mandate. With all the issues confronting students, it would appear that boycotting should not be at the top of the agenda.

6. Is Noah Davis-Powers' position appropriate?

Davis-Powers provided another perspective on the issue. Counter views such as this are important in the relationship between business and society.

2.2 Zapping Sales and Taxes

1. What ethical issues are involved?

The situation provides a good example of ethical dilemmas:

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- *Whether or not moonlighting is appropriate. It is viewed by employers as a conflict of interest. The lack of policy does not excuse Julia from informing her employer.*
- *Whether or not to participate in what is likely tax avoidance (which is legal) or tax evasion (which is illegal). It appears to be evasion.*
- *Whether or not she is violating her professional association's code of ethical principles.*
- *Whether or not this situation will lead to unpleasant circumstances in family relations.*

2. What fundamentals of capitalism are involved?

   The most obvious is the role of government. Most in society accept that governments should impose taxes in exchange for providing goods and services. It involves redistributing wealth through social services.
   Some in society believe that individuals should look out for themselves and that government intervention through taxation restricts their economic freedom.
   Others believe that equality of opportunity is enhanced through taxation.
   Most believe that corporate profits should be taxed.

3. Why should individuals and businesses pay taxes?

   An obvious answer is to provide goods and services that cannot, or should not, be left to the private sector. There is an argument that the less fortunate in society should be aided.
   There is also the view that citizens have the responsibility to pay taxes so that governments can operate. Also, it is being argued that corporations have a social responsibility to pay taxes on profits earned in a particular country. Some indicators of social responsibility now include a measure to assess whether or not the corporation is paying appropriate taxes.

4. What should Julia do?

   Conduct a class vote with students justifying their choice.

Additional Discussion Questions:

1. What stakeholders are harmed or benefit from taxation fraud by the restaurant industry?

   - *Julia's Employer – present. Possible harm, and unlikely to be any benefit.*
   - *Moonlighting employer (her uncle) – Benefits in that obtains professional expertise.*
   - *Family – Harms may occur in family relationships.*
   - *Government/CRA – Harmed in that tax is not collected.*

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- *Professional association – Harmed if actions of member reflect adversely on association.*
- *Other taxpayers – Harmed in that will have to pay more taxes to make up that not paid by restaurant.*

2. What obligation has Julia to disclose this questionable practice? To the taxation agencies? To her uncle?

   Julia has to ask herself about her personal virtues and what others would do in this situation (Universal ethic). In addition, she would have to give serious thought to the legality of her actions. The conclusion would be that she is obligated, but maybe not required to disclose.
   However, from the CRA's perspective, she should report the practice as she signs the forms and thus must take responsibility for the content. CRA may hold her accountable.
   From the uncle's perspective, Julia is in a very sensitive situation!

Additional Information: Moonlighting

Moonlighting is not discussed to an extent in many human resource books, and even on the Internet there is limited information. The following are some sources:

- Jean Kmmel and Lisa M. Powel, "Moonlighting Trends and Related Policy Issues in Canada and the United States," Canadian Public Policy, Vol. XXV, No. 2, June 1999, 207-231.
- John W. Langford, "Moonlighting and Mobility," Canadian Public Administration, Vol. 34, No. 1, March 1991, 62-72.
- S.E. Gordon, "The Trouble with Moonlighting," The Globe and Mail web site, June 20, 2011 and accessed at http://www.theglobeandmail.com/report-on-business/small-business/sb-managing/human-resources/the-trouble-with-moonlighting/article2059007/.

Additional Information: Taxation and Fraud

The restaurant industry is one in which tax avoidance and evasion is most common as evidenced by the references below. Zapping is only one approach.

- "Canada Revenue Agency: Third of Restaurants Inspected Likely Committing Tax Fraud," The Huffington Post Canada at http://www.huffingtonpost.ca/2011/08/01/canada-revenue-agency-restaurants-tax-fraud_n_915073.html.
- Laura Baziuk, "Restaurant industry vows to curb 'zapper' tax fraud," Canada.com at http://www.canada.com/news/Restaurant+industry+vows+curb+zapper+fraud/5201418/story.html.

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- "Restaurant Tax Fraud – Then and Now," November 14, 2009, Canadian Restaurant Tax Advisor at http://cdnbartaxadvisor.wordpress.com/2009/11/14/restaurant-tax-fraud-then-and-now/.
- "How to Get Caught Using Zappers," November 14, 2009, Canadian Restaurant Tax Advisor at http://cdnbartaxadvisor.wordpress.com/2009/11/14/how-to-get-caught-using-zappers/

APPENDIX 2.1

Question: One of the fundamentals of the business system is the "work ethic." Today, the perception of an appropriate work ethic has changed in particular as the result of employees and employers not exhibiting much loyalty to each other. Comment on this phenomenon.

Question: There are various forms of capitalism in the world, ranging from "consumer" capitalism in Canada and the U.S. to "frontier" capitalism in China and Russia (other forms of capitalism discussed included "producer" and "family"). What issues will countries presently operating under frontier capitalism encounter as they move toward the consumer type capitalism? What are the implications for business managers and owners who operate in economies where capitalism is in transition? What stakeholders are likely to play leading roles in the transition?

Question: What is the corporation? What is the role of the corporation in society? Is it a person? Can it have a conscience? Is it a pathological evil spirited creation? These questions have been addressed throughout the course. Prepare a brief essay outlining what you think the corporation is and/or what the corporation should be.

Question: Comment on the following quotation using theoretical and conceptual materials covered in the course:

> Free markets are not a jungle in which only the unscrupulous survive, or a financial free-for-all guided only by greed. The fundamentals of a free market—buying and selling, saving and investing—require clear rules and confidence in basic fairness.
> Source: United States President George W. Bush.

Question: Discuss the following quotation in the context of the materials covered in the course. In particular, comment on the implications for the "ethics of business."

> Free markets are easy to admire but hard to love. Creative destruction, survival of the fittest, the warring impulses of greed and fear—all these dire forces raise living standards in the long run by forcing businesses to improve quality and cut costs. But when a stock market crashes, a big employer goes bankrupt, or a small country suffers a flight of foreign capital, free markets usually get the blame. The losers they produce are obvious; the winners, less so.

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Source: Peter Coy, "The Real Enemies of Free Markets," *Business Week,* March 10, 2003, 22-23.

Question: What is capitalism? Which stakeholders support it? Who are the opponents? What impact do the views of various stakeholders have on managing in the Canadian environment?

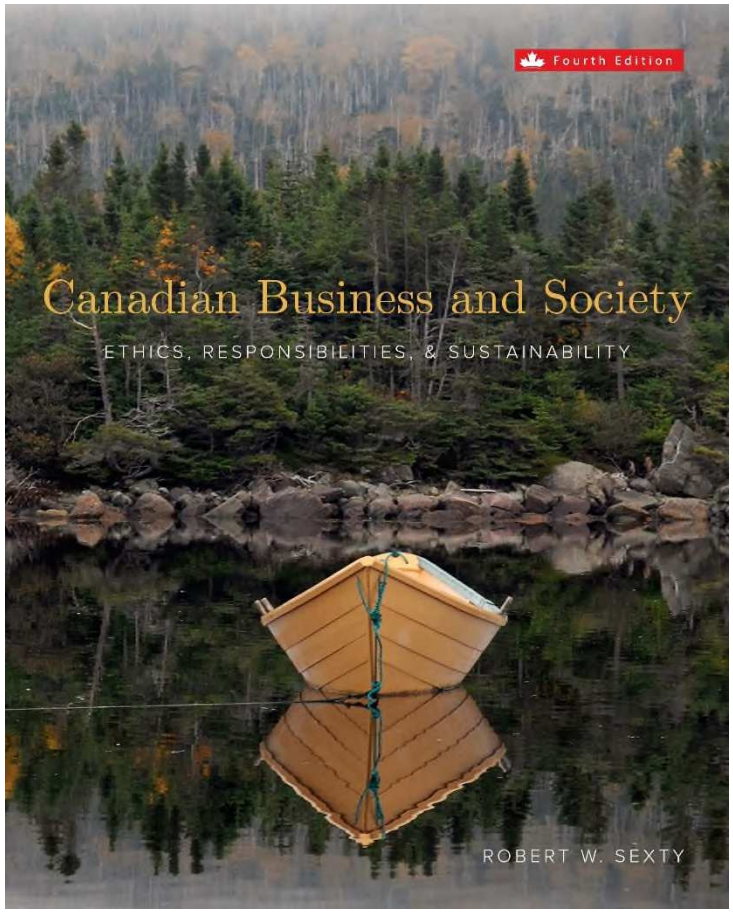
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Canadian Business and Society

ETHICS, RESPONSIBILITY, & SUSTAINABILITY



Fourth Edition



Chapter 2

Ethics and Capitalism

Prepared by Sandra Wellman
Seneca College

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Learning Objectives

1. Enumerate and discuss the eight fundamentals of a capitalist business system.
2. Define the right of private property and identify ethical implications associated with it.
3. Explain individualism and economic freedom and the related ethical implications.
4. Define equality of opportunity and elaborate upon the ethical implications for business.
5. Describe the competition fundamental and link ethical implications to it.
6. Understand profits and the associated ethical implications.

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Learning Objectives

7. Link the work ethic to ethical implications.
8. Define consumer sovereignty and understand related ethical implications.
9. Explain the role of government in a capitalist business system and what the ethical implications are.
10. Define Canadian capitalism, and recognize that capitalism exists in different forms around the world.
11. Recognize the challenges to presenting the case for the ethics of capitalism.

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The Capitalist Business System

LO 2.1

- The Canadian economic system has been, and still is, largely comprised of business enterprises operating in a market system.
- The theory of capitalism can be described by examining the eight fundamental elements of such a system.

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The Right of Private Property

LO 2.2

- The legal right to own and use economic goods - for example, land and buildings.
- **Ethical implications**:
  - Uneven distribution of wealth
  - Use of taxation to redistribute wealth
  - Intellectual Property

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Individualism & Economic Freedom

LO 2.3

- ***Individualism***: the individual (not society or a collective) is the paramount decision maker in society
  - Assumes that the individual is inherently decent and rational.
- ***Economic freedoms***: exist when the business system operates with few restrictions on its activities
- Ethical implications:
  - Is communitarianism more important?
  - Consider unions and co-ops

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Equality of Opportunity

LO 2.4

- The assumption that all individuals or groups have ***an even chance*** at responding to some condition in society.
- **Ethical implications**:
  - Difficult to achieve in capitalistic system
  - Wealth created not distributed equally
  - Inequities such as layoffs, drops in living standards, excessively high executive salaries

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LO 2.4

Business' Responsibility for Gender Equality

- Gender equality is an issue for business because the inequalities are quickly disclosed by social media.
- Statistics:
  - Women's income is about 60 percent of that of men.
  - Women are concentrated in ***lower level*** and income occupations and in ***contingent jobs***
  - Access to the highest paying jobs is often denied

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Competition

LO 2.5

- The condition in a market system in which many rival sellers seek to provide goods and services to many buyers.
- **Ethical implications**:
  - Oligopolies or monopolies can be created
  - More difficult for some firms to enter certain industries
  - Firms might engage in anti-competitive activity

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Profits

LO 2.6

- The excess of revenues over expenses; closely associated with competition.
- **Ethical implications**:
  - Profits sometimes viewed with disdain or as immoral
  - Taxation of excessive profits and the rates of inflation redistribute profits

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The Work Ethic

LO 2.7

- A code of values claiming that work is desirable, a natural activity, and good in and of itself.
- **Ethical implications**:
  - Government programs and society's expectations have influenced individuals' attitudes toward work
  - Individuals now expect more from government and business enterprises in terms of working conditions, benefits, and salaries

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Consumer Sovereignty

LO 2.8

- Consumers have and exercise power over producers through the decisions they make in purchasing the goods and services provided by corporations.

- **Ethical implications**:

  - Consumers not always aware of alternative products available
  - Consumers' preferences are shaped by advertising
  - Producers have power to ignore consumer wishes

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The Role of Government

LO 2.9

- ***Laissez-faire approach*** ("leave us alone") - minimal involvement of government.
- **Ethical implications**:
  - Government now an influential stakeholder (i.e. subsidies, taxation, tariffs, regulations, legislation, loans, grants, ownership)
  - Government can restrict capital movement, impose product standards, prevent businesses from shutting down plants

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LO 2.10

Canadian
Various Forms of Capitalism

- *Capitalism*: An economic system that allows for private ownership of the means of production (land, labour, and capital) and assumes that economic decision making is in the hands of individuals or enterprises that make decisions expecting to earn a profit.
- Several pros and cons exist regarding capitalism.

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Common Forms of Capitalism

LO 2.10

- **Consumer capitalism**
  - United States, Britain, Canada, Australia
- **Producer capitalism**
  - France, Japan, Mexico
  - In Germany called *social market economy*

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Common Forms of Capitalism

LO 2.10

- **Family capitalism** (Crony and Confucian capitalism)
  - Eastern Asia: Taiwan, Malaysia, Thailand, Indonesia
- **Frontier capitalism**
  - Russia, China

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Additional Forms of Capitalism

LO 2.10

- Conscious capitalism
- Creative capitalism
- State capitalism

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The Ethics of Capitalism

LO 2.11

- The Challenges:
  - Greed
  - Mistrust
  - Economic downturns
  - Business failures
  - Corporate crime and wrongdoing

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Capitalism as an Ethical System

LO 2.11

- The Ethics:
  - Advocates of capitalism - it is a system that produces wealth, promotes prosperity, and provides greater human well-being than any other economic system.
  - An assumption exists that moral individuals operate the business system and that they are in the majority
  - For capitalism to operate effectively, a strong system of moral behaviour and integrity is necessary

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Chapter Summary

- Eight elements of Canadian capitalism: the right of private property; equality of opportunity; competition; individualism & economic freedom; profits; the work ethic; consumer sovereignty; and the role of government. **(LO 2.1)**
- The right of private property facilitates the operation of business, but some in society resent a few acquiring large amounts. **(LO 2.2)**

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Chapter Summary

- For capitalism to be acceptable to most, it must allow for ***equality of opportunity*** to share in economic well-being even though the results are not the same for everyone. **(LO 2.3)**
- To ensure that capitalism is regulated in the best interests of stakeholders***, competitive rivalry*** must exist. The difficulty is that even in Canada's form of capitalism competitive markets do not exist. **(LO 2.4)**

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Chapter Summary

- ***Individualism*** encourages people to participate in a capitalistic system. Some resent the focus on individuals and believe the economy should be directed more by governments. **(LO 2.5)**
- In theory, when profits become too high in an industry, more businesses are attracted. Due to ***market imperfections*** such as barriers of entry, this sometimes does not occur. **(LO 2.6)**

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Chapter Summary

- The ***work ethic*** influences the ethics and responsibilities of a corporation. **(LO 2.7)**
- The output of capitalism should be determined ***consumer choice***, however, this is restricted by various business practices and some government regulations. **(LO 2.8)**
- Government role in a capitalistic system, should be only to ***protect stakeholders*** unable to defend themselves and to ***provide the infrastructure*** for the market system to operate effectively. **(LO 2.9)**

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Chapter Summary

- Capitalism exists in ***several forms*** and the way it functions changes; however is does operate most of the time with moral standards. **(LO 2.10)**
- The ethics of capitalism involve several challenges, but an argument can be made that ***it is a moral system***. **(LO 2.11)**

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