Essentials of Business Law 10th edition Liuzzo Solutions Manual

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***Essentials of Business Law*, 10th edition**

INSTRUCTOR'S MANUAL

Chapter 2 Ethics and the Law

LESSON OVERVIEW

In Chapter 1, we discussed the role of law in our world, its sources, and the systems of courts. The first chapter also briefly discussed the importance of moral and legal obligations.

In Chapter 2, *Ethics and the Law*, we will examine the role of ethics in greater detail, define the terms *ethics, morals,* and *values*, and discuss the relationship law shares with ethics. We will also understand the responsibility and responses of businesses, governments, and other organizations to upholding ethics and moral practices in their society. Finally, we emphasize the role of whistleblowers in society as well as the importance of integrating ethics into the corporate world. Instructors may utilize the assessment exercise *Thinking Critically about the Law* to involve students in the subject and to take an active role in the ethical issues found in today's society.

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CHAPTER OUTLINE

A. UNETHICAL BEHAVIOR IN OUR WORLD
B. ETHICS, MORALS, AND VALUES
C. SOURCES OF GROUP AND INDIVIDUAL VALUES
D. THE RELATIONSHIP BETWEEN LAW AND ETHICS
E. RESPONSES TO ETHICAL ISSUES
    1. Responses of Business Firms
        - Duty-Based Reasoning
        - Outcomes-Based Reasoning
    2. Responses of Educational Institutions
    3. Responses of Governments
    4. Responses of Trade and Professional Associations
F. WAYS TO ENSURE ETHICAL PRACTICES
    1. Whistleblowing
    2. Integration of Ethics into Business and Government
G. CHAPTER SUMMARY
H. CHAPTER ASSESSMENT
    1. Matching Key Terms
    2. True/False Quiz
    3. Discussion Questions
    4. Thinking Critically About the Law
    5. Case Questions
    6. Case Analysis
    7. Legal Research

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KEY TERMS

Key terms are listed at the beginning of the chapter, posted in the student textbook margins, and placed in bold in the copy. They are listed here for your quick reference.

- morals
- ethics
- values
- Sarbanes-Oxley
- Duty based reasoning
- outcome based reasoning
- code of ethics
- stakeholder
- whistleblower

LEARNING OUTCOMES

The chapter Learning Outcomes will help you and the students discover the concepts and information that should be understood upon completion of the chapter. You may want to access the **PowerPoint (PPT) slides for Chapter 2** when you begin the study of the chapter and discuss each Learning Outcome. Each Learning Outcome will be covered separately in the Instructor Notes, but they are shown here in total as an overview of the sections being presented in Chapter 2. These slides should be used to reinforce the main points of the lecture.

After completing this chapter, the students will be able to:

1. Cite some examples of how unethical behavior in our world has negatively affected business practices.
2. Distinguish among ethics, morals, and values.
3. Cite several influences on group and individual values.
4. Discuss the relationship between law and ethics.
5. Provide examples of responses to ethical issues by business firms, educational institutions, governments, and trade and professional associations.

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6. Discuss some ways businesses can ensure ethical practices.

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LECTURE OUTLINE

A. UNETHICAL BEHAVIOR IN OUR WORLD

The fact that the Enron and Arthur Andersen case dominated the media in its time and resulted in numerous congressional investigations showed the widespread concern within society of ethical behavior in business. As a result of the attention brought to the public's eye in this and other cases, in 2002 a federal statute, known as **Sarbanes-Oxley**, was enacted, placing a greater onus on upper management to monitor closely the financial dealings and disclosures of their firms and the auditing firms tasked to provide such information. The law also established a regulatory board, Public Company Accounting Oversight Board (PCAOB) to oversee accounting practices in the United States. This board reports to the Securities and Exchange Commission, a federal agency.

The development of technology, Internet and computer technology, and the expansion of global markets has introduced a burgeoning array of ethical questions into the business legal environment.

B. ETHICS, MORALS, AND VALUES

Both ethics and morals are concerned with socially accepted standards of right and wrong. **Ethics** takes a more philosophical approach, examining what is good or bad. **Morals** are concerned with behavior as judged by society. Ethical theories and moral standards are derived from **values**—that is, the beliefs or standards, generally accepted and considered worthwhile.

C. SOURCES OF GROUP AND INDIVIDUAL VALUES

There are group values and individual values, both influenced by religions, traditions, and customs. An individual's values are significantly influenced by those held by the reference groups to which he or she belongs. There are other influences on the development of individual and group values.

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D. THE RELATIONSHIP BETWEEN LAW AND ETHICS

Legal mandates are imposed on individuals or groups by authorities or governments. Ethical considerations, on the other hand, generally spring from within individuals or organizations. A distinction between law and ethics is that legal mandates are usually more precise, more proscriptive. The law requires individuals and organizations to act in specified ways, requiring or prohibiting certain behaviors. Ethical issues may be multifaceted.

E. RESPONSES TO ETHICAL ISSUES

1. Responses of Business Firms

There is increasing concern about ethics in the business world. Some of this concern is undoubtedly the result of enlightened self-interest, as when corporate executives say that ethical practices are simply good business practices.

a) Corporate Responsibility

The actions of corporations that are intended to demonstrate their wish to behave responsibly take many forms and are conducted under the banner of corporate responsibility. Corporations may "adopt" schools, construct parks, donate funds to a local symphony orchestra, or provide scholarships to a university. Corporate actions reflect a moral and ethical concern with social problems and a sincere effort to improve society.

Critics of corporate social action, however, question whether it is appropriate to commit corporate resources to socially desirable goals.

b) Codes of Ethics

Some firms or industries establish a **code of ethics**, sometimes called a *credo that* sets down the principles of ethical behavior expected of its personnel in various situations. A code makes clear

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that the company expects its personnel to recognize the ethical dimensions of corporate policies and actions.

A general list of topics covered in codes typically includes the following:

i. Fundamental honesty and adherence to the law

ii. Product safety and quality

iii. Health and safety in the workplace

iv. Possible conflicts of interest

v. Employment practices

vi. Fairness in selling and marketing practices

vii. Financial reporting

viii. Supplier relationships

ix. Pricing, billing, and contracting

x. Trading in securities and using insider information

xi. Payments to obtain business

xii. High standards of personal-moral conduct

2. Responses of Educational Institutions

Educational institutions have responded to the increased need to examine ethics by adding courses, workshops, and programs, and have expanded the study of ethics in existing courses. Typically, topics include the following:

i. Fairness in hiring, employment, and promotions
ii. Ethical issues in multinational business
iii. Ethical issues arising from technology
iv. Economic justice
v. Environmental ethics

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vi. Ecology

3. Responses of Governments

Governments endeavor to protect consumers and the environment and to influence the ethical behavior of business firms in various ways. The Federal Sentencing Guidelines also provide an incentive for corporations to act more ethically. Under this mandate, when an employee violates a law in the course of his or her employment, a firm may reduce its possible liability if it is able to show that it took positive actions to develop moral/ethical guidelines for its employees. The guidelines are a response to the public's desire to hold companies to a higher standard, and to impose on white-collar criminals consistent and heavier penalties than had been implemented previously.

Even the operation of government itself is monitored and regulated, typically seen by Inspectors General or Auditor General functions. Moreover, in 1863 President Abraham Lincoln and Congress enacted the federal False Claims Act that gives whistleblower protection and potential bounties to employees of government contractors who reveal fraud against the government. On an international level, federal and state governments require that U.S. firms perform ethically in global markets. In addition, diplomatic activities aim to protect American firms from corrupt practices in other countries.

4. Responses of Trade and Professional Associations

Trade associations develop voluntary guidelines for ethical business practices for their diverse memberships. For example, the Direct Marketing Association (DMA) provides self-regulatory standards of conduct for activities such as telephone marketing, sweepstakes, fund-raising, marketing to children, and the collection and use of marketing data. Most cities have a Better Business Bureau (BBB) whose members pledge to follow ethical practices.

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F. WAYS TO ENSURE ETHICAL PRACTICES

Despite these efforts, unethical practices persist. The recent scandal of Wells Fargo Bank establishing false and unauthorized customer accounts and its fall out provide an object lesson. Such behavior frequently results in unfavorable public relations, loss of consumer goodwill, and poor employee morale. The threat of legal prosecution and penalties does not eliminate all unethical practices. Sometimes the driving force for reform may be the individual whistleblower, shareholders or society at large.

1. Whistleblowing

In spite of society's disdain for informers, certain individuals have been so outraged by what they consider unethical behavior that they have risked widespread condemnation and loss of their jobs to reveal information about the activity. These people are usually termed "**whistleblowers**."

Typically, a whistleblower is a person who reveals to a governmental authority, or to news media, confidential information concerning some wrongdoing or conduct that he or she regards as unethical. The information may have come to him or her in the course of employment or in other ways. Often the choice is between revealing information, resulting in adverse effects on the firm that may cause many coworkers to lose their jobs, and remaining silent.

It is not surprising that retaliation is frequently the result of speaking out, even where laws specifically prohibit retaliation. The whistleblower is often regarded as an outcast to the organization or to peers. The federal government and many states have statutes that protect whistleblowers from retaliation. Still, with the possible exception of certain individuals who may have a personal grudge, the usual motivation behind whistleblowing is the outrage to a person's sense of ethics.

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2. Integration of Ethics into Business and Government

In the abstract, there is agreement that business should be conducted in ways that will not harm the consumer, society or the environment. The corporation may indeed adhere to the highest ethical practices, but a new chief executive officer (CEO) or board of directors may discontinue those practices if they reduce profits or otherwise adversely affect the firm. Further government regulation could ensure compliance with ethical standards, but such an arrangement might require a costly and oppressive bureaucracy. The ideal is for responsible individuals, industry organizations, and watchdog groups to encourage corporations and governments to reach mutually agreed ethical practices.

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INSTRUCTOR NOTES

A resulting answer or explanation is provided below for each Learning Outcome in Chapter 2.

LO1. Cite some examples of how unethical behavior in our world has negatively affected business practices.

Examples of how unethical behavior in our world has negatively affected business practices include investors acting on insider information, businesspersons polluting our natural habitat, and individuals acting unethically in the development of medical and electronic technology. The expansion of global markets also raises some ethical predicaments for business professionals.

LO2. Distinguish among ethics, morals, and values.

Ethics is a philosophical approach, examining theories of what is good or bad. Morals are concerned with behavior as judged by society. Values are beliefs or standards considered worthwhile.

LO3. Cite several influences on group and individual values.

Individual and group values are influenced by religion, tradition, and customs.

LO4. Discuss the relationship between law and ethics.

Legal mandates are imposed on individuals or groups by authorities or governments. In contrast, ethical considerations generally spring from within individuals or organizations. However, ethical beliefs are the foundation of many of our laws.

LO5. Provide examples of responses to ethical issues by business firms, educational institutions, governments, and trade and professional associations.

Business firms respond to ethical concerns by acts of corporate responsibility and the formulation of codes of ethics, or credos. Educational institutions offer courses and workshops, and expand their existing programs. Governments endeavor to protect consumers and the environment and to ensure ethical behavior of business firms, and the government itself. Trade and professional associations develop guidelines for business and professional members.

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LO6. Discuss some ways businesses can ensure ethical practices.

Some ways business can ensure ethical practices include integrating corporate codes of ethics and relying on whistleblowers. Corporate codes of ethics vary from one firm or industry to another. Whistleblowing is the exposing of an unethical situation to an authority or the media.

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Chapter 2 Assessment Answers

Matching Key Terms

1. d
2. c
3. f
4. b
5. e
6. a
7. g

True/False Quiz

8. F
9. F
10. F
11. T
12. T
13. T
14. T
15. T
16. T
17. T
18. T

Discussion Questions

19. Students should recognize that greed can motivate executives to act in an unethical manner.

20. Environmental concerns include clean air and water, global warming, preservation of wildlife, and natural resources.

21. The American culture holds that such characteristics as freedom, individualism, family life, fair play, hard work, and honesty are important.

22. The most obvious consequences of a firm's unethical behavior are criminal and civil penalties, and the ultimate failure of the firm.

23. Legal mandates are imposed on individuals or groups by authorities or governments. Ethical considerations, on the other hand, generally spring from within individuals or organizations. However, ethical ideas have been the foundation of much of the legislation enacted by federal, state, and local governments.

24. Students' answers should include adoption of corporate codes of ethics and corporate sponsorship of civic and cultural programs.

Thinking Critically About the Law

25. The whistleblowers often have the choice between revealing information, resulting in adverse effects on the firm that may cause many coworkers to lose their jobs, and remaining silent. It is not surprising that retaliation frequently

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results from an employee's speaking out, and the employee is often regarded as an outcast to the organization or to peers. The federal government and many states have statutes that protect whistleblowers from retaliation. Still, with the possible exception of certain individuals who may have a personal grudge, the usual motivation behind whistleblowing is the outrage to a person's sense of ethics.

26. Many companies today understand the need to maintain ethical standards in their dealings with customers, suppliers, and employees. A code makes clear that the company expects its personnel to recognize the ethical dimensions of corporate policies and actions. Ethics can be examined through adding courses, workshops, and programs, and educational institutions have expanded the study of ethics in existing courses. Students might point to the following topics with regard to codes of ethics being more effective: fairness in hiring, employment, and promotions; ethical issues in multinational business; ethical issues arising from technology; economic justice; environmental ethics; and ecology.

27. Persons who advocate direct corporate action to achieve social goals often believe that these firms are in the best position to attain such goals. Persons who oppose such action argue that corporations' main responsibility is to their shareholders.

28. Students should discuss whether government does enough to oversee business practices or whether government is overly regulatory.

29. Suggestions might include assessment of management objectives, participating in ethics retreats, and workshops.

Case Questions

30. a. Y b. Y c. Y

31. a. N b. Y

32. a. N b. Y

Case Analysis

33. **Principle of law:** The case presents both legal and ethical principles.

Decision: The behavior of the company was clearly unethical and violated the law prohibiting deceptive practices.

34. **Principle of law:** The case presents ethical principles and, depending on local statutes that might require each article of merchandise to be price marked, a legal principle as well.

Decision: It can be argued that failure to price mark each item would compromise customers' interests that might be regarded as unethical.

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35. **Principle of law:** The case illustrates a potential ethical dilemma though no law has been broken.

Decision: Scotts has only violated an ethical principle if he divulges trade secrets. Legally, he was not bound because he did not sign Raytron's agreement.

Legal Research

36. Students might include any of the listed items:
    - Fundamental honesty and adherence to the law
    - Product safety and quality
    - Health and safety in the workplace
    - Possible conflicts of interest
    - Employment practices
    - Fairness in selling and marketing practices
    - Financial reporting
    - Supplier relationships
    - Pricing, billing, and contracting
    - Trading in securities and using insider information
    - Payments to obtain business

37. Students should include companies currently in the news and facing charges of actual or potential ethical impropriety.

BONUS ACTIVITIES

- Have students locate a corporate ethics officer's job description. Ask students to present their findings to the class with the focus on the requirements and responsibilities listed in the job description.

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- Divide students into small groups and ask them to explore corporate codes of ethics and the rules of professional conduct for accountants or lawyers. Have each group write a brief summary of their findings.

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