Business Its Legal Ethical and Global Environment 11th edition Jennings Solutions Manual

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CHAPTER 2

BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

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LECTURE OUTLINE

Use opening ***CONSIDER 2.1*** to pique students' interest.

2-1 What is Ethics? (See PowerPoint Slide 2-1)

- ✓ Examples
  - ➢ SAT cheating
  - ➢ Bank traders rigging interest rates
  - ➢ "Don't steal more than $3.00 of office supplies per quarter."
  - ➢ Underinflated footballs
  - ➢ Uber charges

2-1a "It's Just Not Right!" (Use PowerPoint Slide 2-2)

- Seeing two movies for the price of one by sneaking in
- Failure to tell the clerk that you got too much change
- Increasing the charges to a customer because your boss wants to
- Going back to pay for the laundry detergent that was on the bottom of your cart
- Do I disclose to clients that I am selling off the investments I am trying to get them to buy?

2-1b Normative Standards: How We Behave to Keep Order (See PowerPoint Slides 2-3, 2-4, and 2-5)

- Societal expectations
- E.g., taking cuts in line and not waiting your turn, adultery, cheating on a test

2-1c Line-Cutting and Ethics

- The unwritten laws that we have developed for our interactions with each other
- Waiting your turn is a societal expectation
- Cheating on a test is not a crime, but it does violate societal standards
- Adultery is referred to as cheating – not a crime in most states, but it is perceived as a breach of trust
- Honesty and fairness in our interactions with each other

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FOR THE MANAGER'S DESK − A STATE OF THE UNION ON ACADEMIC ETHICS: Cover the state of the union on ethics and have the students discuss whether they are more like the majority or minority views and habits.

ANSWER TO CONSIDER 2.2: We worry because a grade and a diploma are evidence of accomplishment and knowledge. For engineers, doctors, architects, the grades represent knowledge that affects safety. The long-term effect is that we lose competence and professionalism.

ANSWER TO ETHICAL ISSUES (Cheating in Sports): The issues here are not all violations of rules – they are means that teams use to gain an advantage through, perhaps, the laws of physics. That is, the baking of footballs and the humidor for the baseball probably did not violate the rules. However, there is the question of the spirit of competition and whether everyone is playing with the same types of balls, physically.

With Little League, there are rules for eligibility – age and neighborhood and you have to live within boundaries. The Little League players are also being educated on sportsmanship, so letting the violations go because they were not related to the physical rules of the game would have taught the kids that it is okay to ignore the rules. Often, these rules are an issue of everyone playing by the same constraints and standards.

The behaviors are common – everybody does it and you do gain an advantage, but then everyone is not playing under the same standards and you can't really measure performance.

Often, the defense in the write-up of these stories is that they were doing "what everybody does" and cheating has always occurred in sports. However, see later in the chapter for a discussion of rationalization.

2-2 What is Business Ethics?

- ✓ Three Layers (See PowerPoint Slide 2-6)
  - ➢ Basic values (honest, keeping promises)
  - ➢ Notions of fairness (how we treat others)
  - ➢ Issues related to community, environment, neighbors

2-2a Ethical Standards: Positive Law and Ethics (See PowerPoint Slide 2-7)

- Positive law is codified law
- The problem is that some conduct may not rise to the level of criminal conduct
- Acquittals do not mean that there was ethical conduct

2-2b Ethical Standards: Natural Law and Ethics (See PowerPoint Slide 2-8)

- Moral standard is established
- Individual moral standards differ
- Debate over sources of moral standards
- Evaluate moral standards and conflicts as new data appear

  Example: Employee loyalty versus knowledge of employer's wrongdoing

2-2c Ethical Standards: Moral Relativism and Ethics (See PowerPoint Slide 2-9)

- Situational ethics

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- Bribery is illegal in most countries, but cultural standards have taken hold and it is an accepted and largely unprosecuted crime
- Stealing bread when you are starving

2-2d Ethical Standards: Religion and Ethics (See PowerPoint Slide 2-10)

- Religious beliefs or divine revelation (Bible, Koran)
- Those standards are the ethical standards

2-3 What are the Categories of Ethical Dilemmas? (See PowerPoint Slides 2-11 and 2-12)

2-3a Taking Things That Don't Belong to You

Example: Pens to postage to embezzlement; music from the Internet (downloading copyrighted materials – movies, songs)

2-3b Saying Things You Know Are Not True

Example: Blaming others for your slip-ups; sales promises not honored

2-3c Giving or Allowing False Impressions

Example: Refer students back to the movie ads quoting reviews selectively to give the false impression that the reviewer likes the movie; "All songs by 'Original Artists' example"

ANSWER TO ETHICAL ISSUES (New York Marathoners): Discuss the following points with the students: (1) the temptation to take shortcuts exists even in our recreational activities; (2) we always think we can get away with it; (3) the issue of "it's not fair" to the other runners is important here especially because some who took the subway deprived the real winners in certain categories of their trophies; (4) there is no achievement in a marathon that consists of a subway ride; and (5) there is a loophole the runners found that has been closed.

2-3d Buying Influence or Engaging in Conflict of Interest

ANSWER TO CONSIDER 2.3: Dr. Drew had a conflict. When you are recommending a product, those to whom you are recommending that product need to know whether your endorsement is scientific or if there is any compensation involved. There are two ways to manage a conflict. You either do not take the money or you take the money, but then disclose that you have taken the money. The fact that Dr. Drew's statements were consistent with his clinical experience or that other doctors felt that he was honest and straightforward in his answers are irrelevant. The fact that Dr. Drew had to justify his answers after the fact are an indication of the conflict, not an excuse for not managing it properly, which meant one of two choices: Don't or Disclose. A conflict is a conflict is a conflict and asserting after the fact that you were not influenced does not change the fact that there was a conflict. Use discussion in text, too.

2-3e Hiding or Divulging Information

Example: In contract negotiations, failure to reveal important/material information; with employees, revealing private information

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2-3f Taking Unfair Advantage

Example: Capitalizing on another's inexperience; hotels and Wi-Fi blocking

ANSWER TO CONSIDER 2.4: The court held that there was indeed a breach of the covenant not to compete that Ms. Miller had agreed to and that what was done was wrong, but there could be no recovery unless the college could show damages – they were unable to quantify their losses, so there was no legal remedy. However, ethically, the conduct was clearly a disclosure of private information or even taking the intellectual property of the potential student lists that belonged to the college. In addition, Ms. Miller did not keep her word to not compete directly if she left her employment, at least for a certain amount of time. *Stevens-Henager College v. Eagle Gate College,* 248 P.3d 1025 (Utah 2011).

2-3g Committing Acts of Personal Decadence

Example: Office parties that result in drunken behavior that harms others

2-3h Perpetrating Interpersonal Abuse

Example: Harassment

2-3i Permitting Organizational Abuse

Example: Child labor issues, low wages

2-3j Violating Rules

Example: Follow procedures for finances because of internal control issues – work to change rules, don't violate them; the student who did not follow the rules in the Yale lab

2-3k Condoning Unethical Actions

Examples: Disclosing problems and confronting violators – mention Lehman and Volkswagen examples

2-3l Balancing Ethical Dilemmas

Examples: Google and balancing the freedom to have information with the Chinese government's censorship of the search engine and limitations on access for its citizens; South Africa and the decision to do business

2-4 Resolution of Business Ethical Dilemmas (See PowerPoint Slide 2-13)

2-4a Blanchard and Peale (See PowerPoint Slide 2-14)

- Is it legal?
- Is it balanced?
- How does it make me feel?

2-4b The Front-Page-of-the-Newspaper Test

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- How would the story be reported? (Financial markets and "What were they smoking?")
- Use an objective and informed reporter's view
- Warren Buffett's warning to employees
- Financial institution headline: "What were they smoking?"

2-4c Laura Nash and Perspective (See PowerPoint Slide 2-15)

- How would I view the problem if I sat on the other side of the fence? (Jack-in-the Box and E-Coli)
- Am I able to discuss my decision with my family, friends, and those closest to me? (William Aramony and United Way)
- What am I trying to accomplish?
- Will I feel as comfortable over the long term as I do today?
- Forces managers to examine additional perspectives

2-4d The *Wall Street Journal* Model (See PowerPoint Slide 2-16)

- Compliance
- Contribution (Herman Miller and Eames Chair)
- Consequences

2-4e Other Models

- The Categorical Imperative, Golden Rule, Etc. (See PowerPoint Slide 2-17, Exhibit 2.4, and later discussion on p. 63)
  - Are you comfortable in a world that uses your standards?
  - Discuss "The Golden Rule"

2-5 Why We Fail to Reach Good Decisions in Ethical Dilemmas (See Exhibit 2.1 and PowerPoint Slides 2-18 and 2-19)

2-5a "Everybody Else Does It"

2-5b "If We Don't Do It, Someone Else Will"

Examples: Paying to use someone else's subway pass; selling O.J. Simpson masks and bloody knives

2-5c "That's the Way It Has Always Been Done"

Examples: New Orleans Saints bounty program; audit committees, independence, and eventual SEC rules; dot-coms and poor governance

2-5d "We'll Wait Until the Lawyers Tell Us It's Wrong" (Napster)

Example: Derivatives – legality does not determine morality

2-5e "It Doesn't Really Hurt Anyone"

Examples: Freeway rubberneckers, health insurance claims and rising premiums

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2-5f "The System is Unfair"

Example: Cheating does not improve the system

2-5g "I Was Just Following Orders"

Example: German border guards – sometimes morality requires disobedience

2-5h "You Think This is Bad, You Should Have Seen…"

Example: 35-day month was a lot worse than what we're doing now

2-5i "It's a Gray Area"

Example: HP and the pretexting

ANSWER TO ETHICAL ISSUES (Danica Patrick): Discuss Danica Patrick and what she is missing in her analysis of the ethical dilemma presented to her. Point out that there is always a gray area in law – an area that allows us to take advantage of a situation and we do get ahead, temporarily. However, when that gray area/loophole is closed, we lose what competitive advantage we had and we may not have the skill sets to compete without that gray area. Rationalizations deprive us of the ability of really analyzing ethical dilemmas for all their consequences and risks. Have the students point out other flaws they see in her reasoning.

2-6 Social Responsibility: Another Layer of Business Ethics

✓ Friedman Perspective

- Only answer to shareholders
- Social responsibility takes money from shareholders
- Should only undertake a project if it benefits the business; pollution control for attracting workers is not for the community

2-6a Ethical Postures for Social Responsibility

- Shareholders – want profits
- Employees – want safe and secure jobs

  Dilemma: Does a company risk short-term profits by shutting down to install safety equipment?

- Community – wants plant's economic base but does not want its environment destroyed

  Dilemma: Should a company shut down to install state-of-the-art scrubbers on its plant?

- Ethical Postures and Business Practice

  Whose interest does a corporation serve? What is the best way to serve that interest? (See Exhibit 2.2 and PowerPoint Slide 2-20)

- Inherence (See PowerPoint Slide 2-21)

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- Serve shareholders
- Serve shareholders best by only looking out for shareholders
- Friedman view

  Example: School tax issue – would only get involved if it affected the company directly

- Enlightened Self-Interest

  - Manager is responsible first to shareholders but serves them best by being responsible to larger society
  - Business value is enhanced if it is responsive to society's needs

  Examples: Employers resolving child-care issues for employees, employers advocating lifestyle changes to improve health (costs more initially but in the long run cuts down on medical costs and lost work days)

- Invisible Hand (See PowerPoint Slide 2-22)

  - Manager believes larger society should be served but manager does that best by serving shareholders first
  - Do not become involved in political or social responsibility issues – allow others to handle issues and they will comply

  Example: Would continue to make company profitable so employees would be paid well and would solve the child-care dilemma themselves; Pepsi and its decision to go into India

- Social Responsibility

  - Manager should serve larger society
  - Become involved in all types of political and social issues
  - Encourage managers to be involved

2-7 Why Business Ethics?

2-7a Personal Accountability and Comfort: Business Ethics for Personal Reasons

FOR THE MANAGER'S DESK – THE PARABLE OF THE SADHU: To assist in your discussion of the case with the students, ask the following and/or highlight these key points.

1. Have the students list the business analogies: (a) grueling course to reach goal; (b) only have limited time or window for reaching goal; (c) many challenges in achieving; rules of mountain climbing as survival of the fittest; and (d) ethical/moral issues often have short-term costs and inconvenience
2. Discuss with the students the cognitive dissonance that comes from one's personal standards being in conflict with the rules of engagement in business.
3. Highlight what happened with McCoy on those previous climbs when he did not make it to the top. Example: had a rich experience with the villagers that was more memorable than a successful climb.
4. Note the regrets he had *after* the successful climb as he looked back not knowing what had happened to the Sadhu and the resulting regrets.

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ANSWER TO ETHICAL ISSUES (Mount Everest): Discuss with the students the following: (1) perceived sunk cost is a pressure that drives the decision; (2) desire to succeed drives the climbers; (3) perception that rules are different for mountain climb vs. life; and (4) regard for human life.

2-8 Importance of Ethics in Business Success and the Costs of Unethical Conduct (See PowerPoint Slide 2-23)

- ✓ Short-term profitability through "ethical shortcuts" can contribute to a firm's demise
- ✓ Baucus study on correlation between poor financial performance and ethical/legal missteps
- ✓ Executives feel ethical behavior strengthens a firm's competitive edge
- ✓ Johnson & Johnson example of Tylenol recall – earned it high respect and higher earnings in spite of cost and gave it immunity from scrutiny; Be sure to update with the new material included about Tylenol's conduct in trying to avoid a recall by having agents go around and buy up the defective Tylenol; note that we have to be ever vigilant and can't stand on our laurels and past conduct
- ✓ Costs of Unethical Behavior (See PowerPoint Slide 2-24)
  - ➢ Defense contractors and current reputation
  - ➢ Beech-Nut and the loss in sales from selling "fake" apple juice
  - ➢ Nestlé boycotts over their infant formula marketing programs in Third World nations; inability to sell new formula products because of twenty-year-old incident
  - ➢ Tylenol and the recall of $100 million in inventory
  - ➢ BP
    - ⮚ Failure to smart-pig the oil pipelines
    - ⮚ Saving money and not realizing safety issues
    - ⮚ Production and profits down
    - ⮚ Years to recover trust and market capitalization
    - ⮚ Add discussion of pattern in Deepwater Horizon spill
  - ➢ GM and the faulty switch
    - ⮚ Notice within company
    - ⮚ Failure to take action

FOR THE MANAGER'S DESK − THE TONY BENNETT FACTOR (Use PowerPoint Slide 2-25): Ask the students to list the factors the firms that paid dividends for 100 years have in common.

2-8a Ethics as a Strategy (See PowerPoint Slide 2-26)

- Affords opportunity for planning and ability to answer social needs and cultural changes; use Union Carbide and Bhopal example; company never really recovered
- Creates goodwill between business and the community; absence of goodwill can be costly

2-8b The Value of a Good Reputation

- Illegal or unfair conduct stays in the public mind
- Difficult for firms to recover financially – Salomon's lack of recovery

2-8c Leadership's Role in Ethical Choices (See Exhibit 2.3 and PowerPoint Slide 2-27)

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- Ethical choices are a form of voluntary regulation
- Remedying problems before regulation is put into place
- Examples of abuses (poor ethical choices) that led to regulation

  - Credit disclosure
  - Johns-Manville and asbestos
  - The Subprime lenders being regulated now (See PowerPoint Slide 2-28)
  - Self-regulation by music industry to avoid censorship of artists
  - Self-regulation on tamper proof would have helped

2-9 Creation of an Ethical Culture in Business

2-9a The Tone at the Top and an Ethical Culture (See PowerPoint Slide 2-29)

- Sears and its auto repair issues with pay incentives
- Hotlines for reporting violations
- DuPont and its ethics bulletins
- Sarbanes-Oxley requires these components in an ethics program following collapses of WorldCom, Enron, etc.

2-9b Dodd-Frank, Sarbanes-Oxley, Sentencing, and an Ethical Culture (See PowerPoint Slide 2-30)

- Federal Sentencing Commission

  - Code of ethics
  - Training
  - Anonymous reporting
  - Follow-up
  - Board action
  - Sanctions
  - Officer involvement

2-9c Reporting Lines: An Anonymous Ethics Line for an Ethical Culture

BUSINESS PLANNING TIP: Walk through the components of having an effective code of ethics.

Use ***BUSINESS STRATEGY − THE ETHICAL CULTURE*** discussion on page 60 of text. (See PowerPoint Slide 2-31)

2-9d Developing an Ethics Stance (See PowerPoint Slides 2-32 and 2-33)

- Setting parameters for personal and business behavior
- Setting tone of tolerance or intolerance for behavior

2-9e Being Careful About Pressure and Signals (See PowerPoint Slides 2-34 and 2-35)

- Intense competition/issues of survival
- Managers making poor judgments

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- Employees with no personal values
- Avoiding the either/or conundrum
- Be careful about pressure and signals
    - Goals
    - Quotas
    - Signals

2-10 Ethical Issues in International Business (See PowerPoint Slide 2-36)

✓ Cultures, Laws, and Standards Vary

➢ Issues of bribes, grease payments, and culture-related gifts
➢ Problems of economic development where bribery is common

⅄ Additional costs
⅄ Lack of trust
⅄ Basic assumptions underlying economic model of capitalism don't exist and make investment more difficult

✓ Business Must Decide Whether to Operate Under One Uniform Set of Standards

Use Exhibit 2.4 and PowerPoint Slide 2-37 and 2-38 to discuss a possible model for uniform standards.

ANSWER TO CONSIDER 2.5: (See PowerPoint Slide 2-39 for the most recent 2015 Corruption Perceptions Index.) The countries classified as "Most Corrupt" are also the companies with the least economic development. Denmark, Finland, Norway, the Netherlands, and Sweden are socialistic governments. Canada has socialized medicine. Interestingly, the United States has continued to stay in the top group of twenty-five.

1. Discuss varying cultural issues.
   Example: bribes vs. guanxi
2. Discuss problems companies face when they have different standards.
3. Discuss issues of economic development and standards of living.

✓ Discuss Exhibit 2.5 and PowerPoint Slide 2-40 and the Delicate Balancing of the Four Legs of Capitalism

➢ Corruption in any breaks down investment
➢ All four must be honest for markets to function

BIOGRAPHY – CHESLEY "SULLY" SULLENBERGER: PREPARATION FOR THE MOMENT WHEN SOMETHING GOES WRONG

Discuss the components of preparation and the fact that all of the issues, problems, and potential costs, have to be part of employee thinking in order for them to be prepared when they face an ethical issue.

1. Preparation: The Formal Ethical Infrastructure
2. Preparation: Studying the Missteps

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ANSWERS TO CHAPTER QUESTIONS AND PROBLEMS

1. For Gallo, a decision has to be made to stop sales and that decision will affect profits, particularly since the Tenderloin area seems to be a high-demand area. However, Gallo's voluntary action reflects an attitude of social responsibility. The retailers will take a much more direct hit in terms of profit since the product is obviously a bread-and-butter item for this area. The retailer's comment reflects an inherence school philosophy. Gallo is taking an approach that follows the social responsibility school.

2. No, employees should not accept the rooms. It is a conflict, it will influence their decision-making, and it would not be favorably reported in the newspaper. Even with no contracts, there is the issue of influence.

3. The categories are giving or allowing a false impression or withholding information. Mr. Tovar said that he tried to clarify that he only "attended" the University of Delaware once he learned of the shortage, but people assumed that he had attended. Mr. Tovar said that it was his mistake and that he owned it. He said that he had contacted the University of Delaware to determine which credits he was missing. "I'm in the process of trying to figure out what I need to finish up the last class in order to get my degree," he said. "And then I plan to resume my career."

   Whether termination was needed, the executive who announced the termination said that Mr. Tovar had done a great job and had gotten the company through all of the FCPA issues the company had been facing, but added that trust is everything in communication, so he had to go.

4. Boeing took a risk in hiring Branch in the first place. Boeing's second risk was in not supervising him on the project. The intense competition made them yield to temptation and Branch was there. The ethical breaches were: divulging information, violating rules and condoning unethical actions.

5. Since the presidential inauguration, the debate of our times has continued: Did Beyoncé lip-sync the national anthem? There is no definitive answer as yet. We only know that the National Marine Band did not play during her performance, that a tape was played, and that those in charge of the event felt a live performance was too risky because the singer had not had the opportunity to rehearse with the band prior to her performance.

   So, why so much concern about lip-syncing? The law can provide us with the answer. A live performance carries the implied promise of actual singing. If a singer does not perform live, then those who paid to attend the performance are victims of misrepresentation and/or a breach of a contract, something that entitles them to a remedy, generally a refund. When Britney Spears, who is well known for lip-syncing during live performances, performed in Australia, the lip-syncing was so obvious that fans walked out and demanded refunds. The promoter complied and issued refunds. If a singer has released CDs or songs for sales that represent that the voice is his or her own, and the voice is not that of the singer, then the same misrepresentation issues and damages apply.

   The lip-sync debacle that resulted in the most extensive litigation came upon the discovery that the Grammy-Award-winning duo, Milli Vanilli (Rob Pilatus and Fab Morvan), had never performed any of their songs. That is, the voices on their songs and during their live performances were not theirs. They were indeed lip-syncing, but they were not lip-syncing to their own singing. The result was that the duo was required to return their Grammy awards. In addition, there was a class-action lawsuit brought against the duo and their record company, Arista Records, and parent Bertelsmann Music Group. Under the terms of a settlement of the case, those who had purchased Milli Vanilli albums and CDs were given cash rebates of $1-$3 per purchase, depending upon whether they purchased a single song or albums/CDs.

   The legal issue in lip-syncing is a significant one and one that is a basic requirement for contract performance: What did you promise (by implication, custom or otherwise) and what did you deliver? A

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lip-synced live performance is not the same as an actual live performance. Audiences are paying to see and hear the singer's voice and performance. To the extent that is not provided, those who pay to see and hear have remedies. You can read about various lip-syncing disasters by Ashlee Simpson, Pavarotti, Mariah Carey, R. Kelly, 50 Cent, and others at *Forbes* magazine.

Beyoncé and her record company are not on the legal line here because there was no paying audience. Her obligation would be to the inaugural committee that booked her performance. However, if the committee approved the actions taken by the singer and its producers because of fears about the lack of rehearsal, then there is no legal action. The producer, as an agent of the committee, had the authority to change the live performance in the interest of quality and certainty.

Even those fans who are not of a mind to seek a refund are disappointed by lip-syncing because of an underlying ethical issue – they just want to be told the truth about the singer's performance. Perhaps the answer is to place a disclaimer on concert tickets warning fans that there could be some lip-syncing if there are weather conditions or other issues that prevent a solid live performance.

6. The judge also reminded Mr. Scrushy that he is a convicted felon. Mr. Scrushy must now wear a GPS tracking device, can no longer travel via private means of transportation, and must provide probation officers with written summaries of his trips. This monitoring will continue until he is sentenced or until his appeal of his conviction is decided.

   The classic ethical issue here is giving a false impression – knowing what the terms of the probation were and what the probation officer needed to know, Mr. Scrushy chose to hang his hat on a technicality. Letter of the law vs. spirit of the law and could vs. should. Gray area that netted him more punishment.

7. This is classic rationalization and an offense against the NCAA. The chancellor is saying "We might have done these wrong things, but the NCAA's conduct is inexcusable and they are the ones people don't trust now." The language is designed to deflect attention from the conducts and sanctions and fault the NCAA. These are classic defenses of those who find themselves in situations of violating rules.

8. What we have here is a question of interpretation of the contest rules. Contest participants agree to abide by the contest rules, but the question is whether what Mr. Scott did constitutes offering prizes, farming, or artificially inflating the votes. Past precedent gives contest sponsors broad discretion in enforcing their rules, but Mr. Scott has asked to be reinstated. Gold Peak Tea, a Coca-Cola brand, sponsored it's "Take the Year Off" contest. The prize was one year off work and $100,000. Entrants were required to submit a video. Theodore A. Scott, a Decatur, Georgia attorney, won the grand prize based on votes for his video. His video began with him describing how he had missed out on his family because of his career demands and vowed to spend time with his wife, children, and grandchildren if he won the prize. He also said that he would drink, of course, iced tea.

   After Gold Peak told Mr. Scott that he had won, the company received a tip (and the company will not identify who gave them the tip) that Mr. Scott had gone to About.com, a site that has information on contests and sweepstakes, and made a pitch to voters there. Mr. Scott asked them to vote for him.

   When Gold Peak learned of the post, it disqualified Mr. Peak and gave the prize to the next entrant in line. Rule 6B of the "Take the Year Off" contest provides that contestants were prohibited from obtaining votes by "offering prizes or other inducements to members of the public, vote farming, or any other activity that artificially inflates such finalist's votes as determined by sponsor in its sole discretion." Tanzina Vega, "Winner Uses Contest Site and Loses Grand Prize," *New York Times,* October 1, 2012, p. B1.

   Mr. Scott has defended his action by saying that the people who voted for him were real people and that he did not use robotics or Facebook accounts. An expert on sweepstakes agrees, "In my opinion, that's not cheating if those are real people who aren't being induced."

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9. Under the inherence and invisible hand schools, you would do nothing. Regulation would take its course, and you would implement whatever is necessary when the time comes. Under the enlightened self-interest school, the issue is one that directly affects your employees and customers and needs addressing. The social responsibility school manager would be lobbying for regulation and would implement safety precautions even prior to the passage of any law. Also, using the Heinz name for off-brand ketchup gives a false impression.

10. As in the past, Congress will step in to limit pay. The limits on pay are easily imposed through limits on deductibility. Companies can self-limit or public outrage will regulate it for them. It is an emotionally charged issue that brings regulation.

ECONOMICS, ETHICS, & THE LAW: SELF-INTEREST VS. SELFISHNESS

Smith appears to understand that no matter how successful the pursuit of gain and wealth, there will be a personal void unless the success is accompanied by some effort to help others. Smith believes it to be an inherent need in each of us to help others and that we will do so because unless we do we will not be happy.

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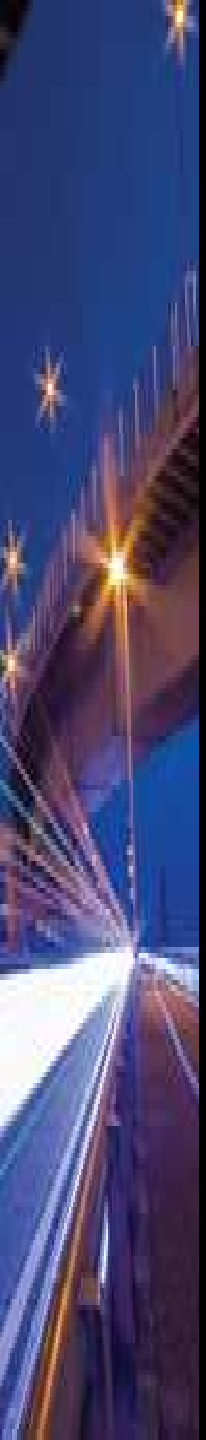
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Marianne M. Jennings

BUSINESS

Its Legal, Ethical, and Global Environment

11th Ed.

Chapter 2
Business Ethics and Social Responsibility

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What Is Ethics?

- Examples:
  - Underinflated football issue in the NFL
  - Turing increases drug price by 5000%
  - Uber's billing policies
- Definition: normative standards, generally accepted rules of conduct that govern society

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What Is Ethics?

- What is "fair"?
- What if something "just doesn't seem right" or "That's just not fair"?
  - Discuss seeing two movies for the price of one
  - Disclosing your salary cut after the loan application is submitted
  - Telling the clerk you received too much change

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Normative Standards

- Normative Standards
  - How we behave, on average
  - How we treat each other
  - Expectations on contracts beyond legal interpretation

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Normative Standards

- Applying Standards of Ethical Reasoning to Business Dilemmas
  - Ethical standard is established
  - Individual ethical standards differ
  - Debate over sources of ethical standards
  - Evaluate ethical standards and conflicts as new data appear

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Normative Standards

- There is no statute on cutting in line, but we do honor that normative standard
- We refer to adultery as "cheating" because the normative standard is that such relationships breach the social norm
- We refer to "cheating" on exams as well

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Three Layers of Business Ethics

- Basic values (honesty)
- Notions of fairness (how we treat others)
- Issues related to community and the environment

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Ethical Standards: Positive Law

- Codified law is followed
- However, there can still be issues with fairness, disclosure, etc. even though there is compliance with the law, as with the verdicts in the 2008 financial markets cases

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Ethical Standards: Natural Law and Ethics

- Positive law is not the standard because some principles are inviolate
- Slavery was wrong even though laws allowed it in the United States

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Ethical Standards: Moral Relativism

- Ethics standard is based on the situation you are dealing with
- Depending on pressures, you make a decision without regard to positive law or normative law standards

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Ethical Standards: Religion and Ethics

- Tenets of faith are ethical standards
- Even if the law allows you to disclaim liability for selling goods "as is," the standards of religion might require them to do more

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Ethical Dilemmas

- Categories of Ethical Dilemmas
  - Taking things that don't belong to you
  - Saying things you know are not true
  - Giving or allowing false impressions
  - Buying influence or engaging in conflict of interest
  - Hiding or divulging information
  - Taking unfair advantage

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Ethical Dilemmas

- Categories of Ethical Dilemmas
  - Committing acts of personal decadence
  - Perpetrating interpersonal abuse
  - Permitting organizational abuse
  - Violating rules
  - Condoning unethical actions
  - Balancing Ethical Dilemmas

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Analyzing Ethical Dilemmas

- Make sure you have a grasp of all the available facts.
- List any information you would like to have but don't and what assumptions you would have to make, if any, in resolving the dilemma.
- Take each person involved in the dilemma and list the concerns they face or might have on what to do about a product and its safety issue.
- Develop a list of resolutions for the problem. Apply the various models for reaching this resolution.
- Evaluate the resolutions for costs, legalities, and impact. Try to determine how each of the parties will react to and be affected by each of the resolutions you have proposed.
- Make a recommendation for the actions that should be taken.

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Resolution of Dilemmas

- Blanchard and Peale
  - Is it legal?
  - Is it balanced?
  - How does it make me feel?
- The Front-Page-of-the-Newspaper Test
  - How would the story be reported?
  - Use an objective and informed reporter's view

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Resolution of Dilemmas

- Laura Nash and Perspective
  - How would I view the problem if I sat on the other side of the fence?
  - Am I able to discuss my decision with my family, friends, and those closest to me?
  - What am I trying to accomplish?
  - Will I feel as comfortable over the long term as I do today?

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Resolution of Dilemmas

- The *Wall Street Journal* Model
  - Compliance: Are you violating any laws?
  - Contribution: What does this action contribute to my customers, shareholders, bondholders, employees, community, and suppliers?
  - Consequences: How will this action affect me, my company, my family, our employees, and our shareholders?

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Resolution of Dilemmas

- Immanuel Kant's Categorical Imperative
- The Golden Rule

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Why We Fail to Reach Good Ethical Decisions

- Rationalizations
  - "*Everybody else does it*"
  - "*If we don't do it, someone else will*"
  - "*That's the way it has always been done*"
  - "*We'll wait until the lawyers tell us it's wrong*"

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Why We Fail to Reach Good Ethical Decisions

- Rationalizations
  - *"It doesn't really hurt anyone"*
  - *"The system is unfair"*
  - *"I was just following orders"*
  - *"You think this is bad, you should have seen…"*
  - *"It's a gray area"*

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Social Responsibility

Whom Should Shareholders Serve?

	Moral question: Whose interest should corporation serve?	**Policy question: Best way to serve interest is if the corporation is responsive to:**
Inherence	Shareholders only	Shareholders only
Enlightened Self-Interest	Shareholders only	Larger society
Invisible Hand	Larger society	Shareholders only
Social responsibility	Larger society	Larger society

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Social Responsibility

- Inherence
  - Serve shareholders
  - Friedman view
- Enlightened Self-Interest
  - Manager is responsible first to shareholders but serves them best by being responsible to larger society
  - Business value is enhanced if it is responsive to society needs

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Social Responsibility

- Invisible Hand
  - Best for society to guide itself
- The Social Responsibility School
  - Manager should serve larger society
  - Become involved in all types of political and social issues
  - Encourage managers to be involved

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Importance of Ethics

- Ethics Resource Center Study
  - Firms with written codes of ethics did substantially better as an investment than the general Dow Jones Composite over a 30-year period
  - Executives feel ethical behavior strengthens a firm's competitive edge
  - Johnson & Johnson recall of Tylenol earned it high respect and higher earnings in spite of cost as well as a type of immunity to scrutiny for decades

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Why Business Ethics?

- Costs of Unethical Behavior
  - BP and the refinery explosion and pipeline rupture and Deepwater Horizon
  - Nestlé and the infant formula
  - Beech-Nut and the fake apple juice
  - GM, the Malibu design, and the litigation
  - GM and the engine switch case

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Why Business Ethics?

- "The Tony Bennett Factor"
  - The Keys to Long-Term Survival

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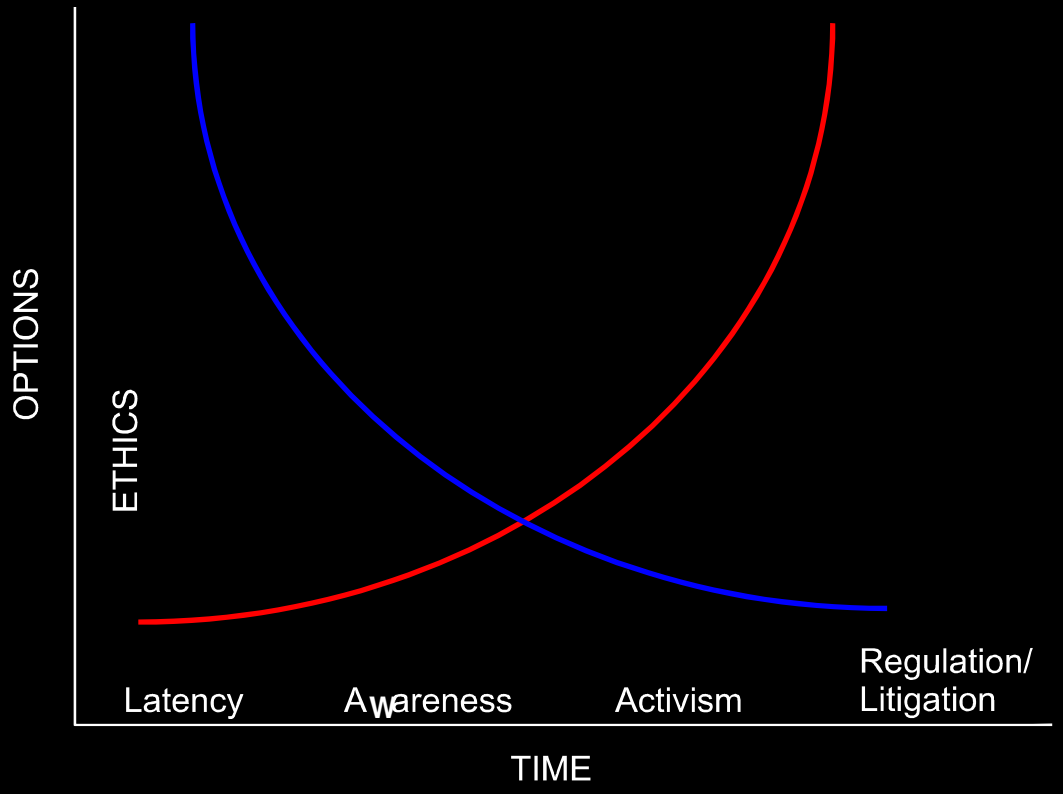
Why Business Ethics?

- Ethics as a Strategy
- Impact on Reputation of Ethical Missteps
- Reputation's Impact on Market Price and Capitalization: Johns-Manville and asbestos
- Reputational Capital and Its Importance

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Leadership and Ethics

Leadership and Ethics: Making Choices Before Liability



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Ethics as a Strategy

- The Subprime Mortgage Market
  - Lucrative area
  - Questions about fairness and disclosure
  - With collapse of the mortgages, new regulations, economic setbacks, financial downturns in companies that pushed the envelope on subprime loans
  - Companies that pulled back from subprimes are now doing well

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Creating an Ethical Culture

- The Tone at the Top
- Sarbanes-Oxley Has Changed Corporate Governance, Reporting, and Operations

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Creating an Ethical Culture

- Sarbanes-Oxley and Culture
  - Code of ethics
  - Training for employees
  - Means for anonymous reporting
  - Following up on employee reports
  - Reporting up the ladder
  - Action by the board in monitoring and following up
  - Self-reporting by company
  - Enforcement within company
  - High-ranking officer in charge

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Creating an Ethical Culture

The Ethical Culture



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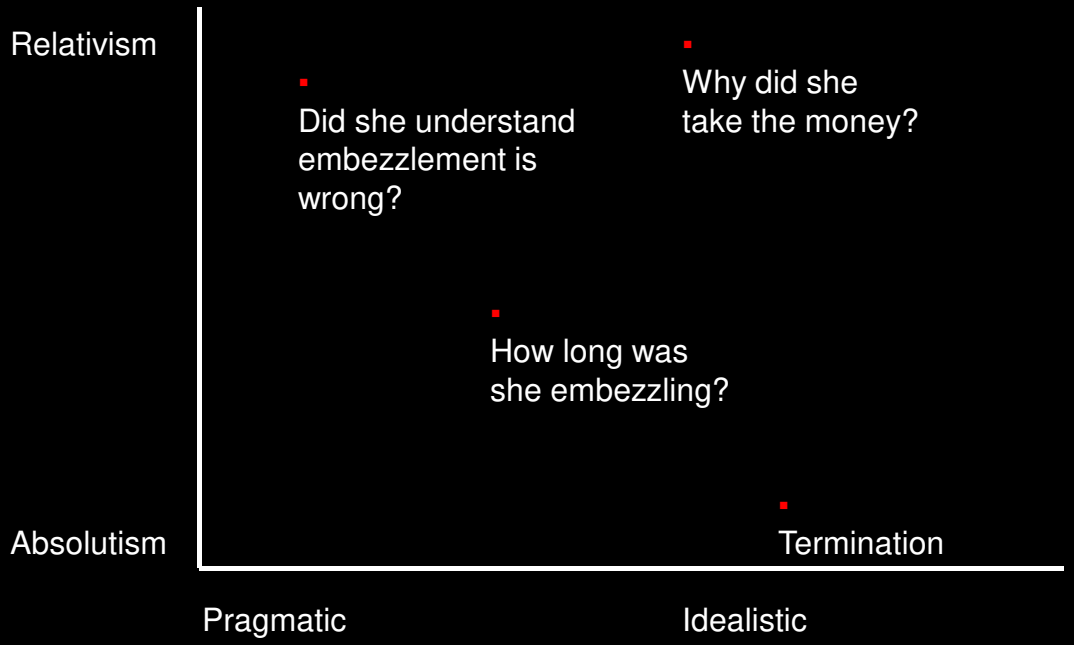
Creating an Ethical Culture

- Developing an Ethics Stance
  - Setting parameters for personal and business behavior
  - Setting tone of tolerance or intolerance for behavior

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Creating an Ethical Culture

Your Ethics Stance: The Embezzling Employee



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Creating an Ethical Culture

- Watch for Dangers of Unethical Environment
  - Intense competition and issues of survival (pressure)
  - Managers making poor judgments
  - Avoiding the "either/or conundrum"
  - Disparity in time devoted to ethics discussion vs. performance discussion

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Creating an Ethical Culture

- Being Careful About Pressure and Signals
  - Competition is so intense that business survival is threatened
  - Managers make poor judgments
  - Employees have few or no personal values
  - Employees respond only to earnings demands
  - Managers and executives are touting earnings

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International Business

- Businesses Must Decide Whether to Operate Under One Uniform Set of Standards
- Cultures, Laws, and Standards Vary
  - Creates issues of bribes, grease payments, and culture-related gifts
  - Problems of economic development where bribery is common

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Creating an Ethical Culture

A Possible Uniform Standard for Ethical Choices

- Categorical Imperative: How would you want to be treated?
- Are you comfortable with a world with your standards?
- Christian principle: The Golden Rule
- And as ye would that men should do to you, do ye also to them likewise. Luke 6:31
- Thou shalt love…they neighbor as thyself. Luke 10:27
- Confucius: What you do not want done to yourself, do not do to others.
- Aristotle: We should behave to our friends as we wish our friends to behave to us.

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Creating an Ethical Culture

A Possible Uniform Standard for Ethical Choices

- Judaism: What you hate, do not do to anyone.
- Buddhism: Hurt not others with that which pains thyself.
- Islam: No one of you is a believer until he loves for his brother what he loves for himself.
- Hinduism: Do nothing to thy neighbor which though wouldst not have him do to thee.
- Sikhism: Treat others as you would be treated yourself.
- Plato: May I do to others as I would that they should no unto me.

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Corruption Perceptions Index 2015

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MOST CORRUPT

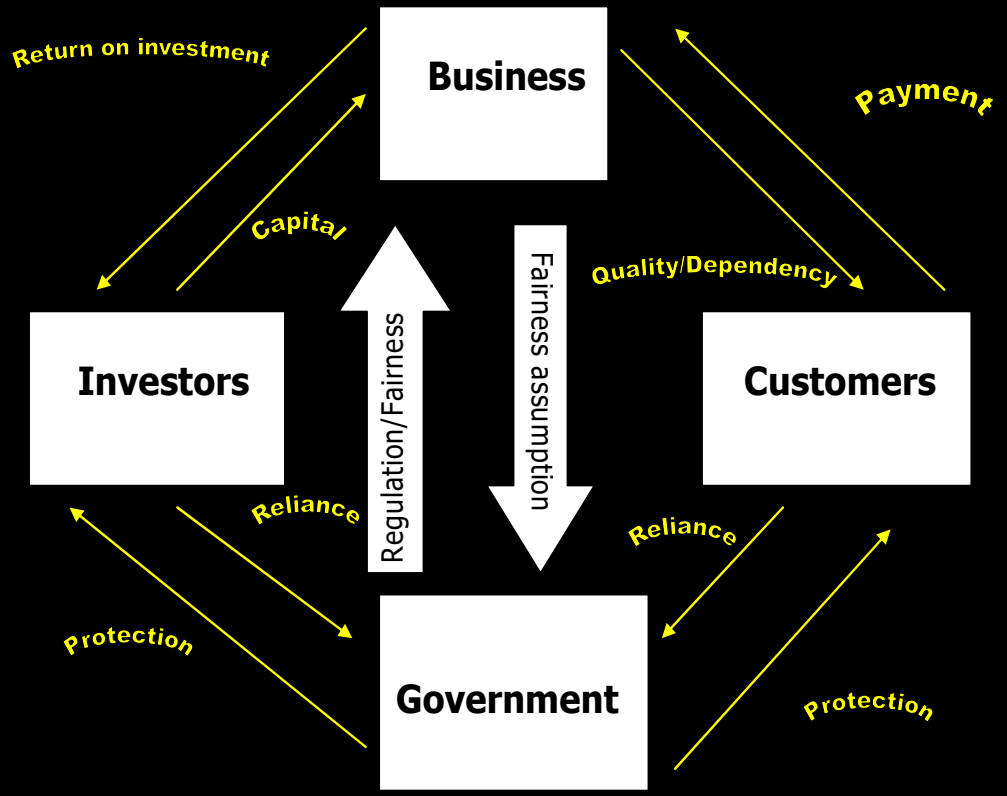
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International Business

Interdependence of Trust, Business, and Government



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