Introduction to Business Law 6th edition Beatty Solutions Manual

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Unit 1 – The Legal Environment

Chapter 2 - Ethics and Corporate Social Responsibility

Chapter Overview

Chapter Theme

Ethical behavior refers to how people *should* behave. Ethical behavior offers significant advantages. Society as a whole benefits; executives who behave ethically have happier, more fulfilled lives; and unethical behavior can destroy a company and the individuals who engage in it. An important point to remember is that while laws represent society's view of basic ethics rules, some laws permit behavior that some feel is wrong and criminalize acts that some feel are right.

It is also important for students to examine ethical issues from a variety of points of view and for them to develop their own **Life Principles**—the rules by which they live their own lives. They should always remember that every ethics decision they make shows their *actual* Life Principles, even if this doesn't match what they *say*.

Eating is one of life's most fundamental needs and greatest pleasures. Yet all around the world many people go to bed hungry. Food companies have played an important role in reducing hunger by producing vast quantities of food cheaply. So much food, so cheaply that, in America, one in three adults and one in five children are obese. Some critics argue that food companies bear responsibility for this overeating because they make their products too alluring. Many processed food products are calorie bombs of fat (which is linked to heart disease), sugar (which leads to diabetes), and salt (which causes high blood pressure). What obligation do food producers and restaurants have to their customers? After all, no one is forcing anyone to eat. Do any of the following examples cross the line into unethical behavior?

1. **Increasing Addiction.** ***Food with high levels of fat, sugar, and salt not only taste better, they are also more addictive.*** Food producers hire neuroscientists who perform MRIs on consumers to gauge the precise level of fat, sugar, and salt that will create the most powerful cravings, the so-called "bliss point." To take one example, in some Prego tomato sauces, sugar is the second most important ingredient after tomatoes. Did you know you were getting two heaping teaspoons of sugar in a small serving of pasta sauce?

2. **Increasing Quantity.** Food companies also work hard to create new categories of products that increase the number of times a day that people eat and the amount of calories in each session. For example, they

Note: Some case citations appear here; footnotes appear in text only.
have created a new category of food that is meant to be more than a snack but less than a meal, such as Hot Pockets. But some versions of this product have more than 700 calories, which would be a lot for lunch, never mind for just a snack. *** Food executives argue that they are just providing what consumers want.

3. **Increasing Calories**. Uno Chicago Grill serves a macaroni and cheese dish that, by itself, provides more than two-thirds of the calories that a moderately active man should eat in one day, and almost three times

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the amount of saturated fat. *** Should restaurants serve items such as these? If they do, what disclosure should they make?

4. **Targeting Poorer Countries.** Because of health concerns, consumption of sweetened soft drinks in the U.S. is declining. In response, soda companies have dramatically increased their marketing budgets in lower income countries such as Brazil and China. Much of this marketing focuses on children. These countries struggle to provide health care to their populations even without the additional burden that soft drinks create.

5. Funding Dubious Science. Both the soft drink and sugar industries generously fund scientific research. Is that good news? Studies they have financed are much more likely to find that there is no connection between sodas and weight gain. ***How likely is it that everyone who drinks a Coke will go out and walk the three miles it would take to burn off those calories?

2-1 WHY STUDY ETHICS?

The law dictates how a person *must* behave. This chapter examines **ethics**, how people *should* behave. However, laws may permit behavior that some feel is wrong, and it may criminalize acts that some feel are right. Research shows that people who think about the right rules for living are less likely to do wrong.

Ethics: How people should behave
Ethics Decision: Any choice about how a person should behave that is based on a sense of right and wrong
Life Principles: The rules by which you live your life

Life Principles should include personal rules on:

1. Lying
2. Stealing
3. Cheating
4. Applying the same or different standards at home and at work
5. Your responsibility as a bystander when you see other people doing wrong

Specific is better than general. Some **Life Principles** focus not so much on right versus wrong but rather serve as a general guide for living a happier, more engaged life. It is important to think through your Life Principles now, so that you will be prepared when facing ethics dilemmas in the future.

2-1a Ethics in Business

Nobel-prize winning economist Milton Friedman (1912-2006) famously argued that a corporate manager's primary responsibility is to the owners of the organization, that is, to shareholders. Unless the owners explicitly provide otherwise, managers should make the company as profitable as possible while also complying with the law.

Others have argued that corporations should instead consider all company stakeholders, not just shareholders. Stakeholders include employees, customers, and the communities and countries in which a company operates. This choice can create an obligation to such broad categories as "society" or "the environment" After 20 first-graders and 6 educators were shot to death at the Sandy Hook Elementary School in Newtown, Connecticut, General Electric Co. (GE) stopped lending funds to shops that sell guns.

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Many of GE's employees lived in the area, and some had children in Sandy Hook. GE was putting its employees ahead of its investors.

As we will see in this chapter, managers face many choices in which the most profitable option is not the most ethical choice. When profitability increases and, with it, a company's stock price, managers benefit because their compensation is often tied to corporate results, either explicitly or through ownership of stock and options. That connection creates an incentive to do the wrong thing.

Conversely, making the ethical choice will sometimes lead to a loss of profits or even one's job.

2-1b Why Be Ethical?

Society as a Whole Benefits from Ethical Behavior

John Akers, the former chairman of IBM, argued that without ethical behavior a society could not be economically competitive. **In short, ethical behavior builds trust, which is important in all of our relationships.**

Ethical Behavior Makes People Happier

A study revealed that the secret to long-term happiness is having good relationships with a spouse, family, and friends. It is difficult to maintain good relationships while behaving unethically. Managers want to feel good about themselves and the decisions they have made; they want to sleep well at night. Their decisions – to lay off employees, recall defective products, burn a cleaner fuel – affect people's lives. Bad decisions are painful to remember.

Ethical Behavior Provides Financial benefits

A company with a good reputation can pay employees less and charge consumers more. Conversely, unethical behavior causes financial harm. Conversely, unethical behavior causes financial harm: companies caught engaging in socially irresponsible or illegal activities typically suffer a significant decline in stock price. Unethical behavior can also cause other, subtler damage; unethical behavior in the workplace may reduce productivity, job stability and profits.

Although there is no *guarantee* that ethical behavior pays in the short or long run, there is evidence that the ethical company is *more likely* to win financially.

2-2 THEORIES OF ETHICS

When making ethics decisions, people sometimes focus on the *reason* for the decision – they want to do what is right. If they think it is wrong to lie, then they will tell the truth, no matter the consequence. In other cases, people think about the *outcome* of their actions. They will do whatever it takes to achieve the right result. This choice, between doing right and getting the right result – has been the subject of much philosophical debate.

2-2a Utilitarian Ethics

In 1863, Englishman John Stuart Mill (1806-73) wrote *Utilitarianism*. To Mill, a correct decision is one that maximizes overall happiness and minimizes overall pain, thereby producing the greatest net

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benefit. As he put it, his goal was to produce the greatest good for the greatest number of people. Risk management and cost-benefit analysis are examples of utilitarian business practices.

Critics of utilitarianism argue that it is very difficult to *measure* utility accurately, at least in the way that one would measure distance or the passage of time. And let's face it, not all lives are of equal value to us. If forced to make a choice, a parent might decide to sacrifice ten strangers in exchange for his own child's life.

Furthermore, a focus on outcome can justify some really terrible behavior. After the 9/11 terrorist attacks, Americans debated the acceptability of torture. Is it ethical to torture a terrorist with the hope of obtaining the details of an upcoming attack?

2-2b Deontological Ethics

Deontological: From the Greek word for obligation; the duty to do the right thing, regardless of the result
Categorical imperative: An act is only ethical if it would be acceptable for everyone to do the same thing

Proponents of deontological ethics believe that utilitarians have it all wrong, and that the *results* are not as important as the *reason* for making it. **Deontological** is from the Greek word for obligation, the duty to do the right thing, regardless of the result. To a deontological thinker, the ends do not justify the means.

The best-known proponent of the deontological model was an eighteenth-century German philosopher Immanuel Kant. Kant believed in the **categorical imperative**, arguing that you should not do something unless you would be willing to have everyone else do it, too**. Kant also believed that human beings possess a unique dignity, and that it is wrong to treat them as commodities,** even if such a decision maximizes overall happiness. **The problem with this belief is that the ends *do* matter.**

2-2c Rawlsian Justice

Life Prospects: The circumstances into which we are born
Veil of ignorance: The rules for society that we would propose if we did not know how lucky we would be in life's lottery
Difference principle: Rawls' suggestion that society should reward behavior that provides the most benefit to the community as a whole.

The circumstances people are born in to dramatically affect their outcomes. John Rawls (1921-2002) was an American philosopher who referred to these circumstances as life prospects. **Life prospects** are the opportunities one has at birth, based on one's natural attributes and initial place in society. In Rawls' view, luck matters as much as hard work.

Rawls argued that we should think about what rules for society we would propose if we faced a "**veil of ignorance**." In other words, what type of society would we create if we did not know whether we would be one of life's winners or losers? Second, we should apply the **difference principle**, Rawls's suggestion that society should reward behavior that provides the most benefit to the community as a whole.

In thinking about ethics decisions, it is worth remembering that many of us have been winners in life's lottery and that the unlucky also deserve opportunities.

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2-2d Front Page Test

When faced with a difficult decision, think about how you would feel if your actions went viral – on YouTube, Facebook, or on the front page of national newspapers. Would that help you decide what to do?

The Front Page test is not completely foolproof. There are times you might have legitimate reasons to do something private.

2-2e Moral Universalism and Relativism

Moral universalism: A belief that some acts are always right or always wrong,
Moral relativism: A belief that a decision may be right even if it is not in keeping with one's own ethical

There are at least two types of moral relativism: cultural and individual. To cultural relativists, what is right or wrong depends on the norms and practices in each society. To individual relativists, people must develop their own ethics rules. And what is right for *me* might not be good for *you*.

2-3 Ethics Traps

Ethics traps create great temptation to do what we know to be wrong or fail to do what we know to be right. These traps include:

2-3a Money

A powerful lure because most people believe that they would be happier if they had more, but that is not necessarily true. Also, money is a way of keeping score.

2-3b Competition

Humans are social animals who cannot help but compare themselves with other people. And, researchers have found that the mere process of negotiating the price of a product reduces a person's sense of morality.

2-3c Rationalization

If I don't do it, someone else will.
I deserve this because…
They had it coming.
I am not harming a *person* – it is just a big company.
This is someone else's responsibility

The Fudge Factor

Duke Professor Dan Ariely found in his groundbreaking research that almost everyone is willing to cheat, at least on a small scale. Deep down, most of us want to be better than the other guy.

I Did It for Someone Else

People who breach ethics often say they did it for their families; Ariely found that if someone else benefits, the cheating increases.

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The Slippery Slope

So many truly awful outcomes begin with that first step down the slippery slope. How easy is it to rationalize, "Just this once."

2-3d We Can't Be Objective About Ourselves

People are not objective when comparing themselves to others. In making a decision that affects you, it is important to remember that you are unlikely to be objective.

2-3e Moral Licensing

Moral licensing: After doing something ethical, many people then have a tendency to act unethically.

2-3f Conflicts of Interest

Small gifts are surprisingly influential in creating such conflicts because the recipients do not make conscious effort to overcome any bias these tokens may create. Larger gifts raise awareness of the potential conflict. **In short, if ethical decisions are your goal, it is better to avoid all conflicts of interest - both large and small.**

2-3g Conformity

Warren Buffet: The five most dangerous words in business may be: "Everyone's doing it." **Evidently many people believe that if everybody else is doing it, then it must be okay.**

2-3h Following Orders

When someone in authority issues orders, even to do something clearly wrong, it is very tempting to comply. Fear of punishment, the belief in authority figures, and the ability to rationalize, all play a role.

2-3i Euphemisms and Reframing

"Smoothing earnings" sounds a lot better than "cook the books" or "commit fraud"

The launch of the space shuttle Challenger was reframed from an engineering question about safety to a management question about pleasing the customer; as a result, the shuttle exploded 73 seconds after launch. Make sure the framing of the issue is correct.

2-3j Lost in a Crowd

When in a group, people are less likely to take responsibility because they assume (hope?) that someone else will. Bystanders are much more likely to react to potential wrongs if they are alone and have to form an independent judgment.

In a business, if everyone is lying to customers, etc., it is tempting to go with the flow.

2-5k Short-Term Perspective

Often, people make unethical decisions because they are thinking short-term. What appears to be a short-term solution could lead to a long-term problem that could lead to bankruptcy and prison time.

Optimism Bias: A belief that the outcome of an event will be more positive than the evidence warrants.

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2-3l Blind Spots

Bob Dylan: "How many times can a man turn his head and pretend that he just doesn't see?" **We all have a tendency to ignore blatant evidence that we would rather not know.**

2-3m Lying: A Special Case

We are taught from an early age that we must tell the truth. Yet research shows that we tell between one and two lies a day. When is lying acceptable? What are your Life Principles on lying?

2-3n Ethics Case: Truth (?) in Borrowing

Rob is in the business of buying dental practices. He finds solo practitioners, buys their assets, signs them to a long-term contract and then improves their management and billing processes so effectively that both he and the dentists are better off.

Rob has just found a great opportunity with a lot of potential profit. There is only *one* problem. The bank will not give him a loan to buy the practice without checking the dentist's financial record. Her credit rating is fine, but it turns out that she filed for bankruptcy 20 years ago. That event no longer appears on her credit record but, on the form it required her to sign, the bank asked about *all* bankruptcies. She is perfectly willing to lie. Rob refused to turn in the form with a lie. But when the bank learned about the bankruptcy, it denied *his* loan even though *her* bankruptcy in no way affects his ability to pay the loan. And the incident is ancient history - the dentist's current finances are strong. Subsequently four other banks also refused to make the loan.

Rob is feeling pretty frustrated. He figures the return on this deal would be 20 percent. Everyone would benefit – the dentist would earn more, her patients would have better technology, he could afford a house in a better school district, and the bank would make a profit. There is one more bank he could try.

Questions:

1. **Should Rob file loan documents with the bank, knowing the dentist has lied?**
   Answer: Answers will vary. This is a very tempting transaction for Rob. He may also believe the banks are being unreasonable, since her prior bankruptcy will not affect his ability to repay the loan. He may justify submitting the loan documents with the dentist's lie to this last bank. But another danger is that banks often talk to each other, and this new one may find out about all of the prior refusals to grant the loan, and demand to know why. Rob may be tempted to take a chance that that will not happen, and that no one will look up bankruptcy records from 20 years ago.
2. **Who would be harmed by this lie?**
   Answer: Arguably, no one. Or perhaps everyone involved, including Rob. If banks can no longer trust his documented applications, they might refuse to lend for future purchases, endangering his business.
3. **What rationalizations might Rob use?**
   Answer: He might argue that if he doesn't do it, someone else will. He might argue that he (and his client) deserve this because…; He might argue that he is not hurting a person (or even the bank).
4. **What if Rob pays back the loan without incident? Was the lie still wrong? Do the ends justify the means?**

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Answer: Answers will vary. If one believes that submitting the loan documents with the lie is wrong, then the ends do not justify the means. If one believes that no one is harmed by submitting the loan documents with the lie, rationalization is at play.

5. **What is your Life Principle about telling lies? When is making a misrepresentation acceptable? To protect someone's life or physical safety? To protect a job? To protect another person's feelings? To gain an advantage? When others are doing the same? When it makes sense from a cost-benefit perspective?**
   Answer: Answers will vary.
6. **Do you have the same rule when lying to protect yourself, as opposed to benefiting others?**
   Answer: Answers will vary.

2-3o Avoiding Ethics Traps

Three practices can help you avoid these pitfalls. 1) Slow down. 2) Do not trust your first instinct. 3) Remember your **Life Principles**.

2-3p Reacting to Unethical Behavior

When faced with unethical behavior in your organization, y8ou have three choices:

Loyalty
Exit
Voice

2-4 APPLYING THE PRINCIPLES

Having thought about ethics principles and traps, you now need to apply them to situations that are similar to those you are likely to face in your life.

2-4a Personal Ethics in the Workplace

Should you behave in the workplace the way you do at home, or do you have a separate set of ethics for each part of your life? What if your employees behave badly outside of work—should that affect their employment?

2-4b Ethics Case: Weird Wierdsma

Beatrix Szeremi immigrated to the U.S. from Hungary. But her American dream turned into a nightmare when she married Charles Wierdsma. He repeatedly beat her and threatened to suffocate and drown her. Ultimately, he pleaded guilty to one felony count and went to jail. Despite his son's guilt, Thomas Wierdsma pressured his daughter-in-law to drop the charges and delete photos of her injuries from her Facebook page. When she refused, he threatened her and her lawyer that he would report her to immigration officials (although she was in the country legally with a green card). Father and son discussed how they could wrongfully get her deported. Thomas also testified in a deposition that it was not bad to lie to a federal agency. "It happens all the time," he said. Thomas Wierdsma is the senior vice president at The GEO Group, Inc.

Research indicates that CEOs who break the law outside of the office are more likely to engage in workplace fraud. Although their legal infractions – driving under the influence, use of illegal drugs,

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domestic violence, even speeding tickets – were unrelated to their work, they seemed to indicate a disrespect for the rule of law and a lack of self-control.

Questions:

1. What would Kant and Mill say is the right thing to do in this case? What is the result under the Front Page test?
2. What ethics traps might Wierdsma's boss face in this situation?
3. What is your Life Principle? What behavior are you willing to tolerate in the interest of profitability?
4. If you were the CE?O of Thomas Wierdsma's company, would you fire him? Impose some other sanction?
5. Which is worse – Wierdsma's threatening his daughter-in-law or stating that it is acceptable to lie to a federal agency?
6. Would you fire a warehouse worker who behaved this way?
7. GEOP runs prisons and immigration facilities for the government. Does that fact change any of your answers?
8. Wierdsma's woes were reported in major newspapers, and his statement about lying to a federal agency was on YouTube. Do these facts change any of your answers?

Answers will vary. Students should be encouraged to state their opinions and support their positions with material from the text.

2-4c The Organization's Responsibility to Society

Many products can potentially cause harm to customers or employees. Does it matter if they willingly accept exposure to these products? What constitutes informed agreement? What is the company's responsibility to those who are *unwittingly* harmed by its products?

2-4d Ethics Case: Up in Smoke

James is on the management team of a health insurance company called HIC. At a team meeting, the CEO announces that from now on, HIC will not hire smokers, and all employees will be regularly tested for nicotine. This policy would reduce the firm's expenses (an estimated $4,000/smoker each year) while increasing productivity (no smoking breaks, fewer sick days). In addition, the policy will encourage healthy choices by employees and the community as a whole – people will quit smoking to work at HIC. The CEO is convinced that society will benefit if smoking is "de-normalized." He also believes this policy will enhance HIC's position as a progressive enterprise, setting a good example for other businesses. Already, many companies in the medical industry are instituting such policies.

Although James does not smoke, he is troubled by this new policy. HIC is located in a city with high rates of unemployment and poverty, as well as a large minority population. He is familiar with the following data:

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Group	Percent of Adults Who Smoke	Group	Percent of Adults Who Smoke
Native Americans	42	Asian women	8
People living *below* Poverty level	36	People living *above* poverty level	22.5
People with less than a High school education	32	College graduates	12
Unemployed	45	Full-time employed	28

James fears that the policy will prevent HIC from hiring the very people who need jobs the most. Also, he knows that nicotine is highly addictive and that many people who want to stop smoking struggle to do so.

Lifestyle choices affect a whole range of illnesses, including diabetes, cancer, heart disease, and sexually transmitted diseases. Is it fair to single out smokers for punishment? While only one-tenth of the company's workers smoke, two-thirds are overweight or obese, which also increases health costs. Even some healthy activities may increase costs – the CEO had been injured in a bike accident. Should the company refuse to hire overweight and cyclist groups as well?

To complicate James' decision, the CEO tends to resent employees who disagree with him. If James speaks out against the nonsmoking policy, his job prospects could be damaged.

Questions:

1. **What would Mill, Kant, and Rawls have said about the CEO's plans? About what James should do?**
   Answer: Mill would have calculated the costs and benefits of this approach. If the impact on the community was severe, then perhaps that would outweigh the benefit to shareholders.

   Kant believed that humans possess a unique dignity. Perhaps the non-smoking plan would violate that dignity. Perhaps the right thing to do is to take care of the community.

   Rawls would be concerned about the very different life prospects that many in the community faced. And that if we had some chance of waking up tomorrow as a poor, unemployed smoker in this community, we would not want to be foreclosed from good jobs.

   Is it worth it to James to risk his job over this issue? Kant would say that he should do the right thing regardless.

   The CEO clearly thinks that this new policy will enhance the organization's reputation. Will it?

2. **What would have been the result if James had applied the Front Page test?**
   Answer: Which headline would James prefer? – that he spoke out against a policy that would very likely hurt the community and its residents – or if he did not speak, and it came to light that he might have prevented the CEO's action if he had spoken? If we assume the action by the CEO could have been prevented by James' speaking out, then he would prefer taking action. But would the CEO have changed his mind? It is doubtful.

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3. What would you do?

Answers will vary. Students should be encouraged to state their opinions and support their positions with material from the text.

2-4e The Organization's Responsibility to Its Employees

Organizations cannot be successful without good workers. In many circumstances the shareholder and stakeholder modules agree that employees should be treated well. Disgruntled workers are likely to be unmotivated and unproductive. But sometimes, looking out for employees may not lead to higher profits. In these cases, does an organization have a duty to "take care" of its workers? The shareholder model says no; the stakeholder model takes the opposite view.

2-4f Ethics Case: The Storm After the Storm

Yanni is the CEO of Butterfly, Inc., which manufactures tractors. A tornado recently destroyed one of the company's plants which was near Farmfield, Arkansas, a town with a population of roughly 5,000 people. Farmfield is a two-hour drive from the nearest city, Little Rock.
The good news is that insurance payout will cover the full cost of rebuilding. The bad news? Manufacturing plants are much more expensive to build and operate in the U.S. than overseas. Yanni has asked Adam and Zoe to present the pros and cons of relocating to someplace cheaper.

Adam says, "If we rebuild overseas, our employees will never find equivalent jobs. We pay $20/hour, and the other jobs in town are mostly minimum-wage. And remember how some of the guys worked right through Christmas to set up for that new model. They have been loyal to us –we owe them something in return. Going overseas is not just bad for Farmfield or Arkansas, it's bad for the country.

Zoe responds, "That is the government's problem, not ours. We'll pay to retrain the workers, which h, frankly, is a generous offer. Our investors get a return of 4%; the industry average is closer to 8%. If we act like a charity to support Farmfield, we could all lose our jobs. It is our obligation to do what's best for our shareholders – which, in this case, happens to be what's right for us, too."

Questions:

1. What ethics traps does Yanni face in this situation?
2. Do you agree with Zoe's argument that it is the government's responsibility to create and protect American jobs and that it is a CEO's job to increase shareholder wealth?
3. Imagine that you personally own shares in Butterfly, Inc. Would you be upset with a decision to rebuild the manufacturing plant in the U.S?
4. If you were in Yanni's position, would you rebuild the plant in Arkansas or relocate overseas?
5. What is your Life Principle on this issue? Would you be willing to risk your job to protect your employees?

Answers will vary. Students should be encouraged to state their opinions and support their positions with material from the text.

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2-4g An Organization's Responsibility to Its Customers

Customers are another group of essential stakeholders. A corporation must gain and retain loyal buyers if it is to stay in business for long. Treating customers well usually increases profits and helps shareholders.

But when, if ever, does an organization go too far? Is a leader acting appropriately when she puts customers first in a way that significantly diminishes the bottom line? The shareholder model says no. What do you say?

2-4h Ethics Case: Mickey Weighs In

Disney decided that only healthy foods could be advertised on its children's television channels, radio stations, and websites. Candy, fast food, and sugared cereals were banned from its parks. Its characters could no longer associate with unhealthy foods. No more Mickey Pop=-Tarts or Buzz Lightyear Happy Meals. Said Disney chairman, Robert Iger, "Companies in a position to help with solutions to childhood obesity should do just that."

This decision caused Disney to lose revenue, but also enhanced its reputation, at least with parents, who increasingly seek healthy food options for their children. And Disney also profited from license fees it received for the use of a Mickey Check logo on healthy food in grocery aisles and restaurants.

Questions:

1. What is Disney's obligation to its young customers?
2. What would Mill or Kant have said? What is the result under the Front Page test?
3. What ethics traps does Disney face?
4. Does this information make you more likely to buy Disney products or allow your children to watch Disney TV?
5. What is your Life Principle? How much profitability (or income) would you be willing to give up to protect children you do not know?

Answers will vary. Students should be encouraged to state their opinions and support their positions with material from the text.

2-4i Organization's Responsibility to Overseas Workers

Industrialization has always been the first stepping stone out of dire poverty—it was in England in centuries past, and it is now in the developing world. Eventually, higher productivity leads to higher wages.

When you look at the levels of infant mortality and education in Taiwan, South Korea, and India—three countries that started at the same economic level—you see that the countries that embraced sweatshops are in much better standing in these areas. In theory, then, sweatshops might not be all bad. But are there limits?

2-4j Ethics Case: A Worm in the Apple

"Riots, Suicides and More," blares an internet headline about a FoxConn factory where iPhones and other Apple products are assembled, Apple is not alone in facing supplier scandals. So have Nike, Coca-Cola, and

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Gap, among many others. Do companies have an obligation to the employees of their suppliers? If so, how can they, or anyone, be sure what is really going on in a factory on the other side of the world? Professor Richard Locke of MIT has studied supply chain issues. His conclusions:

- The first step that many companies took to improve working conditions overseas was to establish a code of conduct and then conduct audits. These coercive practices do not work, and compliance is at best sporadic.

- A more collaborative approach worked better – when the auditors sent by multinationals saw their role as less of a police officer and more as a partner, committed to problem-solving and sharing of best practices.

What would you do if you were a manager in the following circumstances:

- In clothing factories, workers often remove the protective3 guards from their sewing machines because the guards slow the flow of work. As a result, many workers suffer needle punctures. Factories resist the cost of buying new guards because the workers just take them off again. Is there a solution?

- Timberland and Hewlett-{Packard have recognized that selling large numbers of new products creates great variation in demand and therefore pressure factory workers to work overtime. What can a company do to reduce this pressure?

Answers will vary. Students should be encouraged to state their opinions and support their positions with material from the text.

2-4k Corporate Social Responsibility (CSR)

Corporate social responsibility: An organization's obligation to contribute positively to the world around it.

We know companies have a duty not to cause harm. But does an organization have a **corporate social responsibility**—that is, an obligation to contribute positively to the world around it? Do businesses have an affirmative duty to do good? Harvard Professor Michael Porter has written that CSR often benefits a company. However, in Porter's view, a company should not undertake a CSR project unless it is profitable for the company in its own right, regardless of any secondary benefits the company may receive from, say, an improved reputation.

2-4l Ethics Case: The Beauty of a Well-Fed Child

Cosmetic companies often use gift-with-purchase offers to promote their products. For example, with any $35 Estee Lauder purchase at Nordstrom's, you can choose a free gift of creams and makeup valued at $135, plus a designer cosmetic bag.

But Clarins has put a new spin on these offers with what it calls "gift with *purpose*." Spend $75 on Clarins items at Macy's and you will receive free products a*nd* the companies will provide school meals to children

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in need. Clarins and Macy's hope that cosmetic buyers, many of whom are women with children, will find this opportunity to feed children particularly compelling.

Questions:

1. If you were an executive at Clarins or Macy's, what would you want to know before approving this promotion?
2. Would you approve this promotion if it were not profitable on its own account? How much of a subsidy would you be willing to grant?

Answers will vary. Students should be encouraged to state their opinions and support their positions with material from the text.

Chapter Conclusion

Many times in their lives, students will be tempted to do something that they know in their heart of hearts is wrong. Referring to their own Life Principles, and being aware of potential traps will help them to make the right decisions. But they must be able to afford to do the right thing. Everyone should have a reserve fund to cover six months' living expenses. Too often, people make the wrong or illegal choice for financial reasons.



Matching Questions

Match the following terms with their definitions:

_____A. Shareholder model	1. Requires doing "the greatest good for the greatest number"
_____B. Stakeholder model	2. Thought that society should try to make up for people's different life prospects
_____C. Utilitarianism	3. Requires business decisions that maximize the owners' return on investment
_____D. Deontological ethics	4. Focuses on the reasons for which decisions are made
_____E. John Rawls	5. Requires business leaders to consider employees, customers, communities, and other groups when making decisions

Answers:

A. 3
B. 5
C. 1
D. 4
E. 2

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True/False Questions

Circle T for true or F for false: (**Correct answers are bolded)**

1. T **F** Immanuel Kant was a noted utilitarian thinker.
2. T **F** The shareholder model requires that business leaders consider the needs of employees when making decisions.
3. T **F** Modern China has experienced slower economic growth than did England during the Industrial Revolution.
4. **T** F John Stuart Mill's ideas are consistent with business use of risk management and cost-benefit analyses
5. T **F** John Rawls believed that everyone should have the same income.

Multiple Choice Questions

1. Milton Friedman was a strong believer in the _____ model. He _____ argue that a corporate leader's sole obligation is to make money for the company's owners.

   A. shareholder; did
   B. shareholder; did not
   C. stakeholder; did
   D. stakeholder; did not

   Answer: A. Milton Friedman believed that if shareholder and stakeholder interests conflict, the company should act in the best interest of the shareholders.

2. Which of the following wrote the book *Utilitarianism* and believed that ethical actions should "generate the greatest good for the greatest number"?

   A. Milton Friedman
   B. John Stuart Mill
   C. Immanuel Kant
   D. John Rawls

   Answer: B.

3. Which of the following believed that the dignity of human beings must be respected, and that the most ethical decisions are made out of a sense of duty or obligation?

   A. Milton Friedman
   B. John Stuart Mill
   C. Immanuel Kant
   D. John Rawls

   Answer: C.

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4. With which of the following statements would Kant have agreed?
   A. it is ethical to tell a lie if necessary to protect an innocent person from great harm.
   B. it is ethical to tell a lie if the benefit of the lie outweighs the cost.
   C. it is wrong for some people to have greater opportunities than others.
   D. it is wrong to tell a lie.
   Answer: D.

5. The following statement is true:
   A. The majority of people are honest most of the time.
   B. Even people who do not believe in God are more likely to behave honestly after reading the Ten Commandments.
   C. Most people are accurate when comparing themselves to others.
   D. People make their best ethical decisions instinctively, rather than thinking through a problem.
   Answer: B.



Case Questions

1. Senate investigators found that executives at JPMorgan Chase & Co. lied to investors and the public. Also, traders, with the knowledge of top management, changed risk limits to facilitate more trading and then violated even these higher limits. Executives revalued the bank's investment portfolio to reduce apparent losses. The bank's internal investigation failed to find this wrongdoing. Into what ethics traps did these JPMorgan Chase & Co.'s employees fall? What options did the executives and traders have for dealing with this wrong-doing?

   Answer: JPMorgan Chase & Co.'s employees fell into the ethics traps of money, rationalization, conformity, following orders, and getting lost in a crowd. Executives and traders could either choose loyalty, exit, or voice to deal with this wrong-doing.

2. Located in Bath, Maine, Bath Iron Works builds high-tech warships for the Navy. Winning Navy contracts is crucial to the company's success—it means jobs for the community and profits for the shareholders. Navy officials held a meeting at Bath's offices with its executives and those of a competitor to review the specs for an upcoming bid. Both companies desperately wanted to win the contract. After the meeting, a Bath worker realized that one of the Navy officials had left a folder on a chair labeled: "Business Sensitive." It contained information about the competitors' bid that would be a huge advantage to Bath. William Haggett, the Bath CEO, was notified about the file just as he was walking out the door to give a luncheon speech. What ethics traps did he face? How could he avoid these traps? What would result if he considered Mill, Kant, or the Front Page test? What should he do? How would you give voice to your values in this situation?

   Answer: Haggett ordered the file to be copied. By the time he got back from lunch, the company president had found out about the file and ordered the copy destroyed. But by then, other Bath executives had had a chance to examine the file. Haggett, personally returned the file to the Navy, but by then it was too late. The Navy considered banning Bath from bidding on its contracts, which

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would have meant the end of the company. Haggett resigned. A much beloved CEO and an important figure in Maine, he had worked at Bath for 28 years and his father had been a pipe-fitter there. The pitfalls were being in a hurry, money.

3. Each year, the sale of Girl Scout cookies is the major fund-raiser for local troops. But because the organization was criticized for promoting such unhealthy food, it introduced a new cookie, Mango Cremes with Nutrifusion. It promotes this cookie as a vitamin-laden, natural whole food. "A delicious way to get your vitamins." But these vitamins are a minuscule part of the cookie. The rest has more unhealthy fat than an Oreo. The Girl Scouts do much good for many girls. And to do this good, they need to raise money. What would Kant and Mill say? What about the Front Page test? What do you say?

   Answer: Mill would say that the benefit of selling the cookie is greater than the harm. Kant would say that it is the wrong thing to do. The Girl Scouts would not want this information on the front page.

4. E The CEO of Volkswagen set an ambitious goal: to triple sales in the United States and become the largest car manufacturer in the world. Employees listened carefully because the CEO had a reputation for punishing those who did not make their goals. Then the VW engineers realized that the emissions equipment on the company's cars could not meet tough U.S. standards. Fixing the equipment would take time, raise costs, and reduce sales. The engineers believed that other car companies had the same problem. Instead of fixing the equipment, an engineer figured out how to install software that would cheat on the emissions tests. Engineers predicted that the chance of being discovered was low, and executives thought the cost of being caught would be manageable. (Indeed, the company continued on its cheating ways, even after it knew that regulators were investigating.) VW produced 11 million cars with this deceptive software. After the company was caught, it spent $18 billion on fines, legal costs, and car repairs. Its sales and stock price plummeted and it faced criminal investigations. Into what traps did these VW employees fall?

   Answer: Answers will vary. But ethics traps include money, competition, rationalization, following orders, and a short term perspective.

5. I was a plant manager at a factory that used a lot of steel equipment. When a piece of equipment failed and was not worth repairing, it was sold for scrap. Plant managers usually kept the scrap money for themselves without telling headquarters. The money was considered an unofficial bonus. (After all, the equipment was no longer functional, and plant managers are underpaid.) I felt a little uncomfortable taking the money, but my boss warned me that, if I didn't, I would make the other plant managers look bad. I could have paid off my credit card debt with that money but, instead, I hosted an employee BBQ and bought work boots for the low-wage workers. Did I do the right thing? What traps did I face?

   Answer: Answers will vary.



Discussion Questions

1. A vice president from the customer service team told me that the company's largest customer was going to be conducting an on-site audit. The customer would be particularly interested in seeing the dedicated computing equipment that was part of their contract. As it turns out, we did not have any

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dedicated computing equipment. The past director of my area had, on multiple occasions, simply lied. To survive the audit, the VP asked me to lie and also to put fake labels on some of the machines to show the customer. If I didn't agree, I knew the VP would be furious, and we might lose this client.

What would Kant and Mill say? What is the difference between a long-term versus a short-term perspective?

Answer: Answers will vary.

2. Darby has been working for 14 months at Holden Associates, a large management consulting firm. She is earning $95,000 a year, which *sounds* good, but does not go very far in New York City. It turns out that her peers at competing firms are typically paid 20% more and receive larger annual bonuses. Darby works about 60 hours a week, more if she is traveling. A number of times she has had to reschedule her vacation or cancel personal plans to meet client deadlines. She hopes to go to business school in a year and has already begun the application process.

   Holden has a policy that permits any employee who works as late as 8:00 P.M. to eat dinner at company expense. The employee can also take Uber home. Darby is in the habit of staying until 8:00 P.M. every night, whether or not her workload requires it. She then orders enough food for dinner, with leftovers for lunch the next day. She has managed to cut her grocery bill to virtually nothing. Sometimes she invites her boyfriend to join her for dinner. As a student, he is always hungry and broke. Darby often uses the Holden Uber to charge a ride back to his apartment, although the cost is twice as high as to her own place.

   Darby has also been known to return online purchases through the Holden mailroom on the company dime. Many employees do that, and the mailroom workers do not seem to mind.

   Is Darby doing anything wrong? What ethics traps is she facing? What would your Life Principle be in this situation?

   Answer: Answers will vary.

3. Steve supervises a team of account managers. One night at a company outing, Lawrence, a visiting account manager, made some wildly inappropriate sexual remarks to Maddie, who is on Steve's team. When she told Steve, he was uncertain what to do, so he asked his boss. She was concerned that if Steve took the matter further and Lawrence was fired or even disciplined, her whole area would suffer. Lawrence was one of the best account managers in the region, and everyone was overworked as it was. She told Steve to get Maddie to drop the matter. Just tell her that these things happen, and Lawrence did not mean anything by it.

   What should Steve do? What ethics traps does he face? What would be your Life Principle in this situation? What should Maddie do?

   Answer: Answers will vary

4. Many people enjoy rap music at least in part because of its edgy, troublemaking vibe. The problem is that some of this music could cause real trouble. Thus, Ice-T's song "Cop Killer" generated significant controversy when it was released. Among other things, its lyrics celebrated the idea of slitting a policeman's throat. Rick Ross rapped about drugging and raping a woman. Time Warner

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Inc. did not withdraw Ice-T's song but Reebok fired Ross over his lyrics. One difference: Time Warner was struggling with a $15 billion debt and a depressed stock price. Reebok at first refused to take action but then singing group UltraViolet began circulating an online petition against the song and staged a protest at the main Reebok store in New York.

What obligation do media companies have to their customers? What factors matter when making a decision about the content of entertainment?

Answer: Answers will vary.

5. You are negotiating a new labor contract with union officials. The contract covers a plant that has experienced operating losses over the past several years. You want to negotiate concessions from labor to reduce the losses. However, labor is refusing any compromises. You could tell them that, without concessions, the plant will be closed, although that is not true.

   Is bluffing ethical? Under what circumstances? What would Kant and Mill say? What is the result under the Front Page test? What is your Life Principle?
   Answer: Answers will vary.

6. What percentage of your income should you donate to charities? Which charities are most worthwhile? Peter Singer, a Princeton professor, argues that people should give away one-third of their income to worthy charities. But, when entertainment mogul David Geffen donated $100 million to renovate a New York concert hall, Singer said that he could not understand "how anyone could think that giving to the renovation of a concert hall that could impact the lives of generally well-off people living in Manhattan and well-off tourists that come to new York could be the best thing that you could do with $100 million." He added that a donation of less than $100 million could restore sight to someone who is blind. To what theory of ethics is Professor Singer subscribing? Do you agree with him? What obligation do you have to help others? What is the best way to help others?

   Answer: Answers will vary.

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Introduction to Business Law

Sixth Edition

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Chapter 2 – Ethics and Corporate Social Responsibility

Food for Thought:

- Many processed food products are harmful calorie bombs

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Why Study Ethics? (1 of 5)

- The law dictates how a person *must* behave
- Ethics examines how people *should* behave
- **Ethics:** How people should behave
- **Ethics Decision:** Any choice about how a person should behave that is based on a sense of right and wrong
- **Life Principles**: The rules by which you live your life

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Why Study Ethics? (2 of 5)

- However, laws may permit behavior that some feel is wrong, and it may criminalize acts that some feel are right
- Research shows that people who think about the right rules for living are less likely to do wrong
- Develop your own **Life Principles**, including your rules about lying, stealing, cheating, applying the same or different standards at home and at work, and your responsibility as a bystander when you see others being harmed
- Life Principles can serve as a guide for living a happier, more engaged life

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Why Study Ethics? (3 of 5)

- Ethics in Business
  - Economist Milton Friedman famously argued that a corporate manager's primary responsibility is to the owners of the organization, that is, to shareholders
  - Others have argued that corporations should instead consider all company stakeholders, not just shareholders
  - Managers face many choices in which the most profitable option is not the most ethical choice
  - Conversely, making the ethical choice will sometimes lead to a loss of profits or even one's job

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Why Study Ethics? (4 of 5)

- Why Be Ethical
  - Society as a Whole Benefits from Ethical Behavior
    - Ethical behavior builds trust, which is important in all of our relationships
  - Ethical Behavior Makes People Happier
    - A study revealed that the secret to long-term happiness is having good relationships with a spouse, family, and friends
    - It is difficult to maintain good relationships while behaving unethically

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Why Study Ethics? (5 of 5)

- Ethical Behavior Provides Financial Benefits
  - A company with a good reputation can pay employees less and charge consumers more
  - Conversely, unethical behavior causes financial harm

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Theories of Ethics (1 of 4)

- Utilitarian Ethics
  - Englishman John Stuart Mill wrote *Utilitarianism*
  - To Mill, a correct decision is one that maximizes overall happiness and minimizes overall pain, thereby producing the greatest net benefit
  - Critics of utilitarianism argue that it is very difficult to measure utility accurately; also, in a discussion of saving lives, not all lives are of equal value to us
  - Further, a focus on outcome can justify some really terrible behavior

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Theories of Ethics (2 of 4)

- Deontological Ethics
  - **Deontological:** From the Greek word for *obligation*; the duty to do the right thing, regardless of the result
    - Proponents of deontological ethics believe that the *results* of a decision are not as important as the *reason* for making it
  - **Categorical imperative**: An act is only ethical if it would be acceptable for everyone to do the same thing
    - German philosopher Immanuel Kant also believed that human beings possess a unique dignity, and it is wrong to treat them as commodities, even if it maximizes happiness
    - The problem with Kant's theory is that the ends *do* matter

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Theories of Ethics (3 of 4)

- Rawlsian Justice (John Rawls American philosopher)
  - **Life prospects:** The circumstances into which we are born
  - **Veil of ignorance**: The rules for society that we would propose if we did not know how lucky we would be in life's lottery
  - **Difference principle**: Rawls' suggestion that society should reward behavior that provides the most benefit to the community as a whole
  - In thinking about ethics decisions, it is worth remembering that many of us have been winners in life's lottery and that the unlucky also deserve opportunities

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Theories of Ethics (4 of 4)

- Front Page Test
  - When faced with a difficult decision, think about how you would feel if your actions went viral
- Moral Universalism and Relativism
  - **Moral universalism:** A belief that some acts are always right or always wrong
  - **Moral relativism**: A belief that a decision may be right even if it is not in keeping with one's own ethics standards
    - There are at least two types of moral relativism: cultural and individual

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Ethics Traps (1 of 9)

- Money
  - Most people believe they would be happier if they had more, but that is not necessarily true
  - Money is also a way of keeping score
- Competition
  - Deep down, most of us want to be better than the other guy
  - Children in an experiment preferred to get fewer prizes as long as other children got less than they did

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Ethics Traps (2 of 9)

- Rationalization
  - If I don't do it, someone else will
  - I deserve this because…
  - They had it coming
  - I am not harming a *person* – it is just a big company
  - This is someone else's responsibility
- The Fudge Factor
  - Duke professor Dan Ariely found in his groundbreaking research that almost everyone is willing to cheat, at least on a small scale

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Ethics Traps (3 of 9)

- Rationalization (cont)
  - I Did It for Someone Else
    - People who breach ethics often say they did it for their families; Ariely found that if someone else benefits, the cheating increases
  - The Slippery Slope
    - So many truly awful outcomes begin with that first step down the slippery slope

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Ethics Traps (4 of 9)

- We Cannot Be Objective about Ourselves
  - People are not objective when comparing themselves to others
- Moral Licensing
  - **Moral licensing**: After doing something ethical, many people then have a tendency to act unethically
- Conflicts of Interest
  - If ethical decisions are your goal, it is better to avoid all conflicts of interest – both large and small

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Ethics Traps (5 of 9)

- Conformity
  - Evidently many people believe that if everybody else is doing it, then it must be okay
- Ethics Case: Diamonds in the Rough
  - Does Orlanda have a problem?
- Following Orders
  - When someone in authority issues orders, even to do something clearly wrong, it is very tempting to comply

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Ethics Traps (6 of 9)

- Euphemisms and Reframing
  - In business “smooth earnings” sounds better than “cook the books” or “commit fraud”
  - In making ethics decisions, it is important to use accurate terminology; anything else is just rationalization
- Lost in a Crowd
  - When in a group, people are less likely to take responsibility because they assume (hope?) that someone else will

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Ethics Traps (7 of 9)

- Short Term Perspective
  - **Optimism bias**: A belief that the outcome of an event will be more positive than the evidence warrants
- Blind Spots
  - We all have a tendency to ignore blatant evidence that we would rather not know
- Lying: A Special Case
  - We are taught from an early age not to lie, but research shows we tell 1-2 lies per day

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Ethics Traps (9 of 9)

- Ethics Case: Truth(?) in Borrowing
  - Should Rob file loan documents with the bank knowing the dentist has lied, but also believing all will benefit?
- Avoiding Ethics Traps
  - 1. Slow down
  - 2. Do not trust your first instinct
  - 3. Remember your Life Principles

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Ethics Traps (1 of 2)

- Reacting to Unethical Behavior
  - Loyalty
    - Co-workers may disagree about some decisions, but that doesn't mean they are being unethical; pick your battles
  - Exit
    - When faced with the unacceptable, one option is to walk out the door quietly
    - The braver and better option may be to exit loudly- reporting the wrongdoing on the way out the door

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Ethics Traps (2 of 2)

- Reacting to Unethical Behavior (cont)
  - Voice
    - Wrongdoing often occurs because everyone just goes along to get along
    - One valiant soul with the courage to say, “This is wrong,” can be a powerful force for the good
    - But confrontation may not be the only or the best use of your voice
    - Learning to persuade, cajole, or provide better opinions are important leadership skills

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Applying the Principles (1 of 5)

- Personal Ethics in the Workplace
  - Should you behave in the workplace the way you do at home, or do you have a separate set of ethics for each?
- Ethics Case: Weird Wierdsma
  - Research indicates that CEOs who break the law outside the office are more likely to engage in workplace fraud
- The Organization's Responsibility to Society
  - Many questions surround harmful products

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Applying the Principles (2 of 5)

- Ethics Case: Up in Smoke
  - A CEO wants to ban smokers from working for his firm; should his manager speak out, knowing what he knows?
- The Organization's Responsibility to its Employees
  - Does a firm have a duty to take care of its workers?
- Ethics Case: The Storm after the Storm
  - Should a firm rebuild its destroyed plant overseas (cheaper), knowing its employees will never find similar jobs?

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Applying the Principles (3 of 5)

- The Organization's Responsibility to its Customers
  - When, if ever, does a firm go too far in benefiting its customers?
- Ethics Case: Mickey Weighs In
  - Compare the actions re food ads of Disney and Nickelodeon; what would you do?
- The Organization's Responsibility to Overseas Workers
  - Industrialization has always been the first stepping-stone out of dire poverty; what duty does an organization owe its overseas workers?

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Applying the Principles (4 of 5)

- Ethics Case: A Worm in the Apple
  - Do firms have a duty to the employees of their suppliers?
- Corporate Social Responsibility (CSR)
  - **Corporate social responsibility**: An organization's obligation to contribute positively to the world around it
  - Should companies be willing to improve the world even if their efforts *reduce* profitability?

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Applying the Principles (5 of 5)

- Ethics Case: The Beauty of a Well-Fed Child
  - Cosmetic companies often give gifts of products with a purchase, but Clarins and Macy's teamed up to provide a "gift with *purpose*."
  - For each purchaser who spent $75 on Clarins items at Macy's, those firms will provide school meals to children in need
  - Would you approve this promotion if it were not profitable in its own right?

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Chapter Conclusion

- Many times in your life, you will be tempted to do something that you know in your heart of hearts is wrong
- Referring to your own Life Principles, being aware of potential traps, and knowing how to voice your values will help you to make the right decision
- But you must be able to afford to do the right thing; have a reserve fund to cover six months' living expenses
- Too often, people make the wrong or illegal choice for financial reasons

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