Essentials of Business Law and the Legal Environment 13th edition Mann Solutions Manual

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Chapter 2

BUSINESS ETHICS

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B. Ethical Theories
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Cases in This Chapter

(NOTE: These are not actual court cases, but original vignettes which pose ethical problems in business situations. A discussion guide for each is found prior to the answers to problems at the end of this instructor's manual chapter.)

Pharmacon Drug Company
Mykon's Dilemma
Oliver Winery, Inc
JLM, Inc.
Sword Technology, Inc.
Vulcan, Inc.

Chapter Outcomes

After reading and studying this chapter, the student should be able to:

- Describe the difference between law and ethics.
- Compare the various ethical theories.
- Describe cost-benefit analysis and explain when it should be used and when it should be avoided.
- Explain Kohlberg's stages of moral development.
- Explain the ethical responsibilities of business.

TEACHING NOTES

Ethics can be broadly defined as the study of what is right or good for human beings. It pursues the question of what people ought to do and what goals they should pursue.

Business ethics, as a branch of applied ethics, is the study and determination of right and good in business settings.

Ethical questions apply to relationships among and between:

- a business and its employees
- a business and its customers
- a business and its owners
- competing businesses

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- a business and society at large
- businesses and countries at an international level

In business ethics, it is helpful to employ a seeing-knowing-doing model in which the decision maker follows these steps:

- See (identify) the ethical issues in the proposed conduct and any alternative options
- Know (resolve) which is the best option
- Do (implement) the chosen option

A. LAW VERSUS ETHICS

*** Chapter Outcome ***

Describe the difference between law and ethics.

Law is strongly affected by moral concepts (ethics), but law and morality are not the same. Legality is often a reliable guide to ethical behavior, but it cannot be relied upon as a perfect standard. Legal acts may be immoral, illegal acts may be moral.

B. ETHICAL THEORIES

*** Chapter Outcome ***

Compare the various ethical theories.

Certain ethical rules are based on theory rather than experimentation (*a priori* reasoning).

Ethical Fundamentalism

Also called absolutism. Individuals look to a central authority or set of rules for guidance, e.g., the Bible, the Koran, the writings of Karl Marx.

Ethical Relativism

A theory under which actions must be judged by what individuals subjectively feel is right or wrong for themselves. Although bearing some similarities, the doctrine of **situational ethics** differs substantially in that it requires one to judge another person's actions by first putting oneself into that person's situation.

Utilitarianism

Those actions that produce the greatest net pleasure, compared to net pain, are better in a moral sense. **Act utilitarianism** assesses each separate act in order to determine whether it produces net pleasure over pain. **Rule utilitarianism** supports rules that at their inception would appear to be the best hope of producing maximum pleasure for the greatest number of people.

*** Chapter Outcome ***

Describe a cost-benefit analysis and explain when it should be used and when it should be avoided.

Utilitarian notions of moral correctness are the basis for the concept of making a **cost-benefit analysis** in a managerial decision. The purpose of a cost-benefit analysis is to choose the most cost effective method for pursuing a goal after comparing the costs and benefits of proposed alternatives. If increasing net wealth, especially on a short-term basis, is the goal, a sound cost-benefit analysis is a helpful tool.

Deontology

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From the Greek word *deon*, meaning duty or obligation; stresses that certain principles are always right or wrong, no matter the outcome. Actions should be judged by means and motives, rather than only results.

NOTE: See textbook discussion of Immanuel Kant's deontological theories.

Social Ethics Theories

Focus on a person's obligations to other members of society and also on individual rights and obligations.

Social egalitarians believe that society should provide all persons with equal goods and services irrespective of their contributions to the society's overall wealth.

Distributive justice also considers the needs and rights of all people, yet stresses the equality of opportunity, not of results.

Libertarians claim that differences in wealth simply demonstrate different levels of skill in the marketplace. Taking wealth earned by some and giving it to others is unfair.

Other Theories

Intuitionism holds that all rational people possess the ability to decide the rightness of an action, though some people have more insight into ethical behavior than others.

The **"good person" philosophy** is similar, and declares that to act morally, we should emulate those who seem to always choose the "good" or "right" choice.

"Television Test" judges the appropriateness of a decision based on whether we would be comfortable with having that decision known by all the world, as if it had been broadcast on television.

C. ETHICAL STANDARDS IN BUSINESS

*** Chapter Outcome ***

Explain Kohlberg's stages of moral development.

Choosing an Ethical System

Kohlberg's Stages of Moral Development provides insight into ethical decision making. Under Kohlberg's model, people progress through stages of moral development basically as a function of age and education. The *pre-conventional* or childhood stage, is one where a person's moral perspective is based only on a punishment/reward concept. The *conventional* or adolescent stage is one where an individual conforms his behavior to meet group or peer expectations. Some people may reach the third, or *post-conventional,* adult level where individuals conform to internalized moral principles simply because they understand why the principles are right.

NOTE: See Figure 2-1, Kohlberg's Stages of Moral Development

Some psychologists assert that most people function in all three of Kohlberg's stages simultaneously.

Corporations as Moral Agents

Because a corporation is a statutorily created entity, is not clear whether it should be held to a standard of moral accountability.

D. ETHICAL RESPONSIBILITIES OF BUSINESS

Some regulation has always been necessary to check overreaching greed in our system of modified capitalism.

*** Chapter Outcome ***

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Explain the ethical responsibilities of business.

Regulation of Business

According to Adam Smith's model for the perfect capitalistic system, governmental oversight is necessary, but should be limited. Beyond setting the rules and enforcing them, Smith felt that government should stand aside. Increased governmental intervention has occurred, however, because this model cannot be relied on to achieve objectives such as national defense, conservation of natural resources, health and safety, and social security. Successful government regulation involves carefully balancing regulations that attempt to preserve competition and those that attempt to advance other social objectives.

Corporate Governance

The demand for ethical and social responsibility of business also results from the sheer size, and therefore power, of individual corporations. Many people — and even members of the corporate community itself — believe that companies have an obligation to sponsor projects that benefit society in ways beyond the economics of producing goods and services.

Arguments Against Social Responsibility

Profitability — Since corporations are artificial entities established for profit-making activities, their only social obligation should be to return as much money as possible to the direct stakeholders, the shareholders.

Unfairness — Whenever corporations engage in social activities such as supporting the arts or education, they divert funds rightfully belonging to the shareholders and/or the employees to unrelated third parties.

Accountability — A corporation may decide to support a variety of social causes but, unlike a governmental body, will be required to submit to little public scrutiny.

Expertise — Although a corporation may have a high level of expertise in selling its goods and services, it may not be able to carry on social activities with the same degree of competence.

Arguments in Favor of Social Responsibility

A corporation's primary objective is to make a return on its investment by producing a quality product at a fair price. Most people agree, however, that corporations have obligations beyond making a profit and avoiding harm to others.

The Social Contract — Since society allows for the creation of corporations and gives them special rights, including a grant of limited liability, this argument holds that corporations reciprocally owe a responsibility to our society.

NOTE: See Figure 2-2, The Stakeholder Model.

Less Government Regulation — When corporations act responsibly, regulation becomes unnecessary. In addition, by taking a more proactive role in aiding with society's problems, corporations create a climate of trust and respect that may make government more lenient in regulations.

Long-Run Profits — Corporate involvement in social causes has the effect of creating goodwill which simply makes good business sense from a long-run profit perspective.

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CASE

Pharmakon Drug Company

ISSUES:

The **general issue** is the appropriateness of affirmative action in the private sector. Does the use of affirmative action when a company is downsizing differ from when a company is hiring or conferring other benefits?

The **specific issue** is how should Pharmakon implement its layoffs and what criteria should it use?

OPTIONS: Layoffs and/or terminations should be based on which one or combination of the following?

1) Cause
2) Merit based on a newly established, reliable, and valid evaluation system
3) Seniority
4) Proportionate (maintain the current percentage of minority employees)
5) Enhancement of minority (increase the percentage of minorities)
6) Encourage voluntary retirement (either with or without incentives)
7) Lottery
8) Pay cuts across the board
9) Other

ANALYSIS OF THE VARIOUS OPTIONS:

How does each of the options impact the following goals of Pharmakon?

1) Productivity
2) Fiscal soundness
3) Minority presence and preservation of minority gains
4) Employee morale
5) Potential for lawsuits
6) Public and community reaction
7) Shareholder reaction
8) Balancing of rights of current employees against past corporate/societal discrimination

DECISION:

Have students justify their recommendations.

ADDITIONAL DISCUSSION:

- **Affirmative Action**: Discuss the benefits and costs of affirmative action.
- **Diversity**: How does one place a value on diversity? How should a diversity policy be implemented?
- **Equality**: How is equality determined—by outcome or by opportunity?
- **Political Correctness**: What is political correctness? Is it appropriate? Is it relevant to the issues raised in Pharmakon?

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CASE

Mykon's Dilemma

ISSUES:

1) Supply—How much of the fungus do you use immediately? How much do you conserve for future use?
2) Allocation—How should the drug be allocated?
3) Pricing—At what price should the drug be sold?

ALLOCATION OPTIONS — The drug should be distributed on which one or which combination of the following criteria?

1) Based on how long a patient has been seeking medical assistance
2) Triage system—those that are in the most desperate condition get the medication first
3) Only to asymptomatic HIV patients
4) Based on fault —give priority to less culpable victims
5) Free market—the highest bidders
6) Lottery—(a) charge everyone who enters the lottery with the winners receiving the drug without additional charge or (b) an open lottery with the winners receiving the right to purchase the drug
7) Based on patient's nationality— (a) by the percentage of the company's business in that country; (b) by the percentage of patients in that country, (c) by the percentage of the company's employees in that country, (d) by the percentage of stockholders in that country, or (e) by some other nationality-based criteria
8) Give priority to stockholders of the company
9) Give priority to citizens of the country in which the fungus grows
10) Relinquish the decision to a governmental or international body

PRICING OPTIONS —

1) Free market
2) Like any other new drug
3) Free—to all or to some patients
4) A healthy profit margin—that is, a profit higher than the industry norm

ANALYSIS OF THE VARIOUS OPTIONS:

How does each of the options impact the following goals and concerns?

1) Fairness—to patients, stockholders, US citizens, other nationals, and those who cannot afford to pay
2) What can or should be done to prevent a black market in the drug?
3) Can and should a sufficient quantity of the fungus be preserved for future research?

DECISION:

Have the students justify their decision.

ADDITIONAL DISCUSSION:

- Can this case be decided without determining who lives and who dies?
- Who should make this type of decision: The company? A government? An international body?

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CASE

Oliver Winery, Inc.

ISSUES:

Should the company manufacture the new line of wine and, if so, under what conditions?

OPTIONS:

1) Do not manufacture
2) Do not manufacture and try to prevent others from manufacturing this type of wine
3) Manufacture without company's name on the wine
4) Manufacture with company's name on the wine
5) Manufacture and invest a percentage of the profits in education or rehabilitation
6) Manufacture and put a warning on the bottle
7) Manufacture and refuse to sell in certain neighborhoods

ANALYSIS OF THE VARIOUS OPTIONS:

How do these options affect the following stakeholders?

1) Oliver Winery
2) Habitual drinkers
3) Non-habitual drinkers
4) Retailers
5) Community

DECISION:

Have the students justify their decision.

1) Does this decision differ from the decision of a company that is already producing the wine as to whether it should continue to manufacture or not?
2) Does this decision vary or differ between a privately held company and a publicly traded company?

ADDITIONAL DISCUSSION:

1) What is the social responsibility of business?
2) What is the intent in this type of target marketing?
3) Is target marketing appropriate (a) in this case or (b) ever?
4) Should the Reverend resign?
5) If the company does not produce the wine, will the decision have any effect?
6) What would happen if *all* producers stopped producing this type of wine?
7) Does this situation differ from the sale of (a) Tobacco? (b) Guns, especially ñSaturday night specialsî? (c) Illegal drugs? (d) High cholesterol foods?

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CASE

JLM, Inc.

ISSUES:

The **general issue** is what policy should JLM adopt regarding letters of references.

The **specific issue** is what should JLM do about the particular individuals involved.

OPTIONS:

1) Adopt a no reference policy
2) Adopt a policy that permits references to be written by certain specified employees
3) Allow references on a case by case basis
4) Permit references to be given
5) Provide (or not provide) references for each of the individuals involved
6) Allow employees to provide references as individuals but not as agents of the company

ANALYSIS OF THE VARIOUS OPTIONS

1) What is the rationale behind a no reference policy?
2) What is the rationale in favor of providing references?
3) What are the ethics of each of these policies? Is not providing references deception by silence?
4) Should states adopt laws to protect companies from tort liability (defamation) for providing references? Explain.
5) Should a company be held liable for negligent hiring? When?
6) Should the law enforce an employee's promise not to sue made in consideration of the employer's providing a letter of reference?
7) Who is harmed by no reference policies?
8) Should JLM provide references for the particular individuals involved in this case? Explain.
9) For whom are you most inclined to provide a reference? The least inclined? Explain.
10) What is the cost to JLM of each option? What is the cost to society in general?

DECISION:

Have students justify their recommendations.

ADDITIONAL DISCUSSION:

- **Employment at will**—Is it fair? Explain.
- **Right to lie**—Is it ever appropriate to lie in business? If so, when?
- **Society's responsibility—**Should there be laws regulating this area? Explain.

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CASE

Sword Technology, Inc.

ISSUES:

Should the company follow the legal and ethical practices of its home country or the legal and ethical practices of the host country?

SITUATION	DISCUSSION
Transfer Payments	• Is a cost/benefit analysis appropriate? • Is it significant that other companies do it?
Customs Expediting	Is it legal and ethical in home country? In host country? (Probably is *not* a violation of Foreign Corrupt Practices Act.)
Campaign Contributions	Is it legal and ethical in home country? In host country? (Probably *is* a violation of Foreign Corrupt Practices Act.)
Lake Tahoe	Is it legal and ethical in home country? In host country? (Probably *is* a violation of Foreign Corrupt Practices Act.)
Design of Plant	Is it legal and ethical in home country? In host country?
Child Labor	• Is it legal and ethical in home country? In host country? • Who is causing the harm? Does that matter? • Is a cost/benefit analysis appropriate?
Discrimination	• Is it legal and ethical in home country? In host country? • Is it fair?
Nepotism	• Is it legal and ethical in home country? In host country? • Is it fair?

DECISION:

Have the students justify their decision.

ADDITIONAL DISCUSSION:

- Does the decision whether to follow the home or host country's practice depend on the level of economic development of each country?
- Should a host country's practice be permissible if the home country would do the same if it were at the same economic stage as the host country?
- Are there moral minimums that must be satisfied in ***all*** countries? Are any of these moral minimums applicable to any of the ethical issues raised in this case?

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CASE

Vulcan, Inc.

ISSUES:

What circumstances constitute insider trading? Is it ethical to use non-disclosed agents to buy land for a price lower than its known (but undisclosed) value?

ACTION	DISCUSSION
Stock Options	Was it ethical to issue stock options to the executives who knew about the impending land acquisition and mineral strike?
Misleading Press Release	Although the press release issued in response to rumors was technically accurate, its downplaying of the situation is misleading. Is this a legal or ethical practice?
Land Acquisition	Is it legal and ethical to use multiple non-disclosed agents to mask the volume and value of land purchases in order to obtain land at a price lower than its actual value? Is it ethical to buy land at a low price, knowing its value is going to go up, then sell it at the elevated price?
Stock Purchase by Executives Who Know About Mineral Find	Is this insider trading?
Stock Purchase by Eavesdropper Who Does Not Know Executives	Is this insider trading?
Stock Purchase by Security Guard Who Gets Tip From Executive	Is this insider trading?
Stock Purchase by Agent Who Knows About Land Purchases	Is this insider trading?
Stock Purchase by Friends and Family of Executives Who Know About Mineral Find	Is this insider trading?
Stock Purchase by Stockbroker (and His Clients) Who Notices Other Unusual Purchases	Is this insider trading?

DECISION:

Have the students justify their decision.

ADDITIONAL DISCUSSION:

- Is there ever a time when it is ethical and legal to buy stocks based on insider information?

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ANSWERS TO QUESTIONS AND PROBLEMS

1. *You have an employee who has a chemical imbalance in the brain that causes him to be severely unstable. The medication that is available to deal with this schizophrenic condition is extremely powerful and decreases the taker's life span by one to two years for every year that the user takes it. You know that his doctors and family believe that it is in his best interest to take the medication. What course of action should you follow?*

Answer: ***Arguments Against Social Responsibility***. This question illustrates one scenario where arguments against corporate social responsibility could come into play. If you take the "anti-social responsibility" position that a corporation has -- as its primary objective -- a fundamental responsibility to maximize profits, the employer could make the medication a requirement for the employee to remain in the workforce. It could be argued that this decision may also decrease the possibility of injury or deterioration in working conditions for other employees. The other side of the argument, however, is that this type of decision is too personal for a corporation to make. The ultimate determination should reside with the employee and it should be his free decision to take or not take the medication. This puts the responsibility back where it belongs, on the employee and his family.

2. *You have a very shy employee from another country. After a time, you notice that the quality of her performance is deteriorating rapidly. You find an appropriate time to speak with her and determine that she is extremely distraught. She tells you that her family has arranged a marriage for her and that she refuses to obey their contract. She further states to you that she is thinking about committing suicide. Two weeks later, after her poor performance continues, you determine that she is on the verge of a nervous breakdown; and once again she informs you that she is going to commit suicide. What should you do? Consider further that you can petition a court to have her involuntarily committed to a mental hospital. You know, however, that her family would consider such a commitment an extreme insult and that they might seek retribution. Does this prospect alter your decision?*

Answer: ***Arguments For Social Responsibility***. A good, responsible manager would be hard-pressed to demand that the employee either improve her on-the-job performance or face dismissal. However, initiating an involuntary committal to a mental hospital could constitute an improper invasion of rights with many legal repercussions. An interim step of providing appropriate psychological social counseling (perhaps at company expense) would seem to best fit into the concept of good corporate management. This would benefit not only the individual, but the corporation may be able to keep a valued employee. The cost of counseling is likely to be less expensive than hiring and training a new employee.

3. *You receive a telephone call from a company that you never do business with requesting a reference on one of your employees, Mary Sunshine. You believe that Mary is generally incompetent and would be delighted to see her take another job. You give her a glowing reference. Is this right? Explain.*

Answer: ***Utilitarianism***. Pawning off an incompetent employee would certainly help the profitability of an employer. However, relatively accurate referrals are expected, and good

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corporate citizenship would impose a moral responsibility to act properly. The employer would be better advised to give a more accurate, but not overly negative, description of Mary's job performance (while staying within the conditional privilege of avoiding a defamation action), rather than generate animosity and gain a reputation as a liar among other businesses in the area.

4. *You have just received a report suggesting that a chemical your company uses in its manufacturing process is very dangerous. You have not read the report, but you are generally aware of its contents. You believe that the chemical can be replaced fairly easily, but that if word gets out, panic may set in among employees and community members. A reporter asks if you have seen the report, and you say no. Is your behavior right or wrong? Explain.*

Answer: ***Utilitarianism***. Weighing the arguments for profitability to shareholders and fairness to shareholders and employees against the arguments for good corporate citizenship and long-run profits, an appropriate response might be that you are aware of the report but haven't thoroughly read or studied it. Proceeding with a course that acknowledges (at least internally) past dangerous practices, while immediately correcting the current problems, and correcting future problems in a timely manner, may be an appropriate legal as well as moral response to this problem. This is one of the reasons many corporations have a corporate spokesperson to give appropriate and consistent responses.

5. *You and Joe Jones, your neighbor and friend, bought lottery tickets at the corner drugstore. While watching the lottery drawing on television with you that night, Joe leaped from the couch, waved his lottery ticket, and shouted, "I've got the winning number!" Suddenly, he clutched his chest, keeled over, and died on the spot. You are the only living person who knows that Joe, not you, bought the winning ticket. If you substitute his ticket for yours, no one will know of the switch, and you will be $10 million richer. Joe's only living relative is a rich aunt whom he despised. Will you switch his ticket for yours? Explain.*

Answer: ***Fundamentalism***. Perhaps an advocate of utilitarianism or social egalitarianism might feel that switching the ticket would be morally appropriate on the premise that it maximized pleasure and was an appropriate distribution of wealth. However, such a moral rationalization would demonstrate the flaws in both theories. There is no escaping the fact that switching the tickets would be improper under the law and most moral theories.

6. *Omega, Inc., a publicly held corporation, has assets of $100 million and annual earnings in the range of $13–$15 million. Omega owns three aluminum plants, which are profitable, and one plastics plant, which is losing $4 million a year. The plastics plant shows no sign of ever becoming profitable, because of its very high operating costs; and there is no evidence that the plant and the underlying real estate will increase in value. Omega decides to sell the plastics plant. The only bidder for the plant is Gold, who intends to use the plant for a new purpose, to introduce automation, and to replace all present employees. Would it be ethical for Omega to turn down Gold's bid and keep the plastics plant operating indefinitely, for the purpose of preserving the employees' jobs? Explain.*

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Answer: ***Egalitarianism***. Indefinite maintenance of the plastics plant may strike one as being the morally correct thing to do. The moral basis for such a decision would be essentially egalitarianism where the wealth generated by many is redistributed to benefit others. However, as the basis for an economic system, such an approach may be doomed to ultimate failure in that it does not rectify anything and only prolongs a perhaps snowballing problem that could taint and impair the job security of everyone employed by Omega. If managerial and operational changes truly cannot rectify the net loss situation suffered by the plastics plant, sale of the plant to Gold may, in a broader context, be the morally correct thing to do.

7. *You are the sales manager of a two-year-old electronics firm. At times, the firm has seemed to be on the brink of failure, but recently has begun to be profitable. In large part, the profitability is due to the aggressive and talented sales force you have recruited. Two months ago, you hired Alice North, an honors graduate from State University who decided that she was tired of the research department and wanted to try sales.*

   Almost immediately after you sent Alice out for training with Brad West, your best salesman, he began reporting to you an unexpected turn of events. According to Brad, "Alice is terrific: she's confident, smooth, and persistent. Unfortunately, a lot of our buyers are good old boys who just aren't comfortable around young, bright women. Just last week, Hiram Jones, one of our biggest customers, told me that he simply won't continue to do business with 'young chicks' who think they invented the world. It's not that Alice is a know-it-all. She's not. It's just that these guys like to booze it up a bit, tell some off-color jokes, and then get down to business. Alice doesn't drink, and although she never objects to the jokes, it's clear she thinks they're offensive." Brad felt that several potential deals had fallen through "because the mood just wasn't right with Alice there." Brad added, "I don't like a lot of these guys' styles myself, but I go along to make the sales. I just do not think Alice is going to make it."

   When you call Alice in to discuss the situation, she concedes the accuracy of Brad's report, but indicates that she's not to blame and insists that she be kept on the job. You feel committed to equal opportunity, but don't want to jeopardize your company's ability to survive. Explain what you should do?

Answer: ***Utilitarianism***. This is a common problem with a myriad of legal and moral implications. From a profitability standpoint, especially in the case of a company on the brink of economic failure, ignoring the requirements and whims of customers can amount to economic death. From a legal standpoint, the Equal Opportunity laws operate harshly against an employer that discriminates on the basis of sex or race in hiring and promotional activities. Employees are frequently aware of their rights, yet wishing to help the business of an employer and otherwise acting as a good "team player." A possible response might be (with the consent of Alice) attempting to divide sales accounts to give to Alice those accounts where her sex would be a neutral or perhaps positive factor, while retaining for Brad oversight of the "good old boy" accounts. Such an approach would acknowledge both her legal rights and her justifiable expectations while not undermining the profitability of a company whose very existence is at issue. Best utilization of employees is critical to any corporation, and this includes sensitivity to both the employees' needs and the customers' needs.

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8. *Major Company subcontracted the development of part of a large technology system to Start-up Company, a small corporation specializing in custom computer systems. The contract, which was a major breakthrough for Start-up Company and crucial to its future, provided for an initial development fee and subsequent progress payments, as well as a final date for completion.*

   Start-up Company provided Major Company with periodic reports indicating that everything was on schedule. After several months, however, the status reports stopped coming, and the company missed delivery of the schematics, the second major milestone. As an in-house technical consultant for Major Company, you visited Start-up Company and found not only that they were far behind schedule but that they had lied about their previous progress. Moreover, you determined that this slippage put the schedule for the entire project in severe jeopardy. The cause of Start-up's slippage was the removal of personnel from your project to work on short-term contracts in order to obtain money to meet the weekly payroll.

   Your company decided that you should stay at Start-up Company to monitor their work and to assist in the design of the project. After six weeks and some progress, Start-up is still way behind their delivery dates. Nonetheless, you are now familiar enough with the project to complete it in-house with Major's personnel.

   Start-up is still experiencing severe cash flow problems and repeatedly requests payment from Major. But your CEO, furious with Start-up's lies and deceptions, wishes to "bury" Start-up and finish the project using Major Company's internal resources. She knows that withholding payment to Start-up will put them out of business. What do you do? Explain.

Answer: ***Situational Ethics.*** We don't know if the development fee was ever paid to Start-up Company. Major had an obligation to pay the initial development fee. If it was paid, and Start-up did not produce the required progress reports then Major is correct to withhold payment. Situational ethics will come into play when you decide whether or not to give Start-up more time to complete the work. If the start-up fee was not paid, and it was Major's failure to pay on schedule that caused Start-up to divert their personnel, then Major needs to take some share of the blame. .

9. *A customer requested certain sophisticated tests on equipment he purchased from your factory. Such tests are very expensive and must be performed by a third party. The equipment was tested as requested and met all of the industry standards, but showed anomalies which could not be explained.*

   Though the problem appeared to be very minor, you decided to inspect the unit to try to understand the test data—a very expensive and time-consuming process. You informed the customer of this decision. A problem was found, but it was minor and was highly unlikely ever to cause the unit to fail. In addition to the time and expense required to rebuild the equipment, notifying the customer that you were planning to rebuild the unit would also put your overall manufacturing procedures in question. Should you fix the problem, ship the equipment as-is, or inform the customer?Explain.

Answer: ***Fundamentalism.*** You must inform the customer. The customer apparently has the right to request such testing and as such you have ethical responsibility to inform the customer of all factors. The ultimate decision should be made by the customer. However,

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you have the obligation to comply with the legal and governmental responsibilities within your industry.

10. You are a project manager for a company making a major proposal to a Middle Eastern country. Your major competition is from Japan.
(a) Your local agent, who is closely tied to a very influential sheikh, would receive a 5 percent commission if the proposal were accepted. Near the date for decision the agent asks you for $150,000 to grease the skids so that your proposal is accepted. What do you do?
(b) What do you do if, after you say no, the agent goes to your vice president, who provides the money?
(c) Your overseas operation learns that most other foreign companies in this Middle Eastern location bolster their business by exchanging currency on the gray market. You discover that your division is twice as profitable as budgeted due to the amount of domestic currency you have received on the gray market. What do you do?

Answer: ***Ethical Theories.*** (a) This may cross the line from ethical to legal requirements. If this is not illegal, then applying the doctrine of ethical relativism, you must decide what is subjectively right for you. You also need to check the company code of conduct and any other applicable policy.

(b) Again applying the doctrine of ethical relativism, if you feel strongly enough you may have to quit your job or request a transfer to another division. If this activity is not legal you have the obligation to report it to your company's superiors.

(c) The Utilitarianism cost–benefit analysis will allow you to first quantify this in monetary terms and then compare the direct and indirect costs and benefits. This process may achieve the most profit but may ignore justice in the process.

11. Explain what relevance ethics has to business.

Answer: ***Business Ethics***. Business ethics is the study and determination of what is right and good in business settings. Business ethics seeks to understand the moral issues that arise from business practices, institutions, and decision making, and their relationship to generalized human values. Unlike legal analyses, analyses of ethics have no central authority, such as courts or legislatures, upon which to rely; nor do they follow clear-cut universal standards. Nonetheless, despite these inherent limitations, it still may be possible to make meaningful ethical judgments.

12. How should the financial interests of stockholders be balanced with the varied interests of stakeholders? If you were writing a code of conduct for your company, how would you address this issue?

Answer: ***Social Responsibility.*** Finding this balance has been the struggle for most, if not all businesses throughout time. Historically, the stockholder model for the role of business has been the norm. Under this theory, a corporation is viewed as private property owned by and for the benefit of its owners—the stockholders of the corporation. The stakeholder model, on the other hand, holds that corporations are responsible to society at large and more directly to all those constituencies on which they depend for their survival. Thus, it is argued that a corporation should be managed for the benefit of all of its stakeholders—stockholders,

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employees, customers, suppliers, and managers, as well as the local communities in which it operates. (Student answers will vary, but should address these two models.)

13. A company adopts a policy that (a) prohibits romantic relationships between employees of different rank and (b) permits romantic relationships between employees of the same rank only if both employees waive in writing their rights to sue the company should the relationship end. Violation of this rule is grounds for dismissal. Is this rule ethical? If not, how should it be revised? Explain.

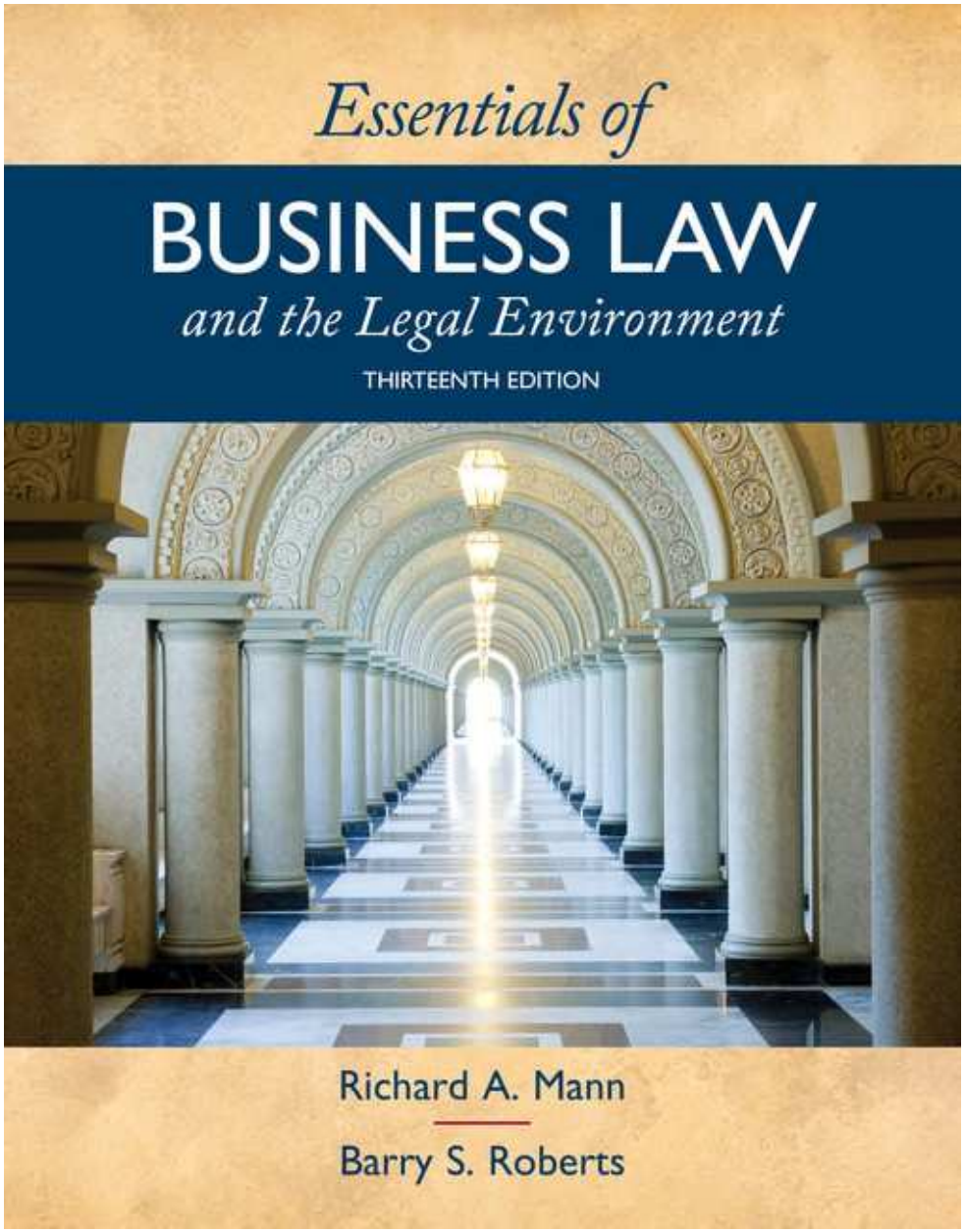
Answer: ***Ethical Theories***. Student answers will vary, but should address ways to find a balance between individual freedoms or rights and the good of the company. Presumably, this policy was made for a purpose that serves to protect the company (which in turn protects the employee's job and other stakeholders' interests.) A discussion of the theory of utilitarianism would be appropriate in the answer to this question.

14. A company prohibits any employee from making disparaging comments about the company through any social media, including online blogs, email, and other electronic media. Violation of this rule is grounds for dismissal. Explain whether this rule is ethical. If not, how should it be revised? Explain.

Answer: ***Ethical Theories***. Student answers will vary, but should address ways to find a balance between individual freedoms or rights and the good of the company. An argument against this policy would probably be grounded in the Constitutional protection of free speech, which an argument in favor of the policy would center on the good that comes from protecting the company. A discussion of the theory of utilitarianism would be appropriate in the answer to this question.

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Chapter 2
Business Ethics

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Topics Covered in Chapter 2: Business Ethics

A. Law versus Ethics

B. Ethical Theories

C. Ethical Standards in Business

D. Ethical Responsibilities of Business

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DEFINITIONS

- **Ethics** – study of what is right or good for human beings.
- **Business Ethics** – study of what is right and good in a business setting; includes the moral issues that arise from business practices, institutions, and decision making.

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Law versus Ethics

- Law and morality are not necessarily the same.
- Sometimes legally permissible actions are not moral; sometimes ethical decisions may seem immoral.

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Ethical Theories

- **Ethical Fundamentalism**
  - Also called absolutism.
  - Individuals look to a central authority or set of rules to guide them in ethical decision making.

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Ethical Theories

- **Ethical Relativism**
  - Actions must be judged by what individuals subjectively feel is right or wrong for themselves.
  - *Situational Ethics* – one must judge a person's actions by first putting oneself in the actor's situation.

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Ethical Theories

- **Utilitarianism**
  - Moral actions are those that produce the greatest net pleasure compared with net pain.
    - *Act Utilitarianism* – assesses each act according to whether it maximizes pleasure over pain.
    - *Rule Utilitarianism* – supports rules that on balance produce the greatest pleasure for society.
    - *Cost-Benefit Analysis* – quantifies the benefits and costs of alternatives.

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Ethical Theories

- **Deontology**
  - Actions must be judged by their motives and means as well as their results.
  - *Kant's Categorical Imperative* – for an action to be moral, it must:
    - (1) potentially be a universal law that can be applied consistently, and
    - (2) respect autonomy and rationality of all human beings.

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Ethical Theories

- **Social Ethics Theories**
  - Special obligations arise from the social nature of human beings.
  - *Social Egalitarians* – believe that society should provide all its members with equal amounts of goods and services regardless of their relative contributions.

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Ethical Theories

- **Social Ethics Theories**
  - *Distributive Justice* – stresses equality of opportunity rather than results.
  - *Libertarians* – stress market outcomes as the basis for distributing society's rewards; consider it unjust when society takes wealth earned by citizens and distributes it to those who did not earn it.

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Ethical Theories

- **Other Theories**
  - *Intuitionism* – a rational person possesses inherent power to assess the correctness of actions.
  - *Good Person* – individuals should seek out and emulate good role models.
  - *Television Test* – would we be comfortable if our actions were broadcast on television?

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Ethical Standards in Business

- **Choosing an Ethical System**
  - Kohlberg's stages of moral development is a widely accepted model.
- **Corporations as Moral Agents**
  - Because a corporation is a statutorily created entity, it is not clear whether it should be held morally responsible.

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Ethical Responsibilities of Business

- **Regulation of Business**
  - Governmental regulation is necessary because all the conditions for perfect competition have not been satisfied and free competition cannot by itself achieve other social goals.

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Ethical Responsibilities of Business

- **Corporate Governance**
  - Vast amounts of wealth and power have become concentrated in a small number of corporations, which are in turn controlled by a small group of people, and it is argued that they therefore have a responsibility to undertake projects to benefit society.

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Ethical Responsibilities of Business

- **Arguments against Social Responsibility**
  - *Profitability* – because corporations are artificial entities established for profit-making activities, their only social obligation should be to return as much money as possible to shareholders. →

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Ethical Responsibilities of Business

- **Arguments against Social Responsibility**
  - *Unfairness* – whenever corporations engage in social activities such as supporting the arts or education, they divert funds rightfully belonging to shareholders and/or employees. →

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Ethical Responsibilities of Business

- **Arguments against Social Responsibility**
  - *Accountability* – a corporation is subject to less public accountability than public bodies; large powerful companies pursuing their private visions of socially responsible behavior might well distort the entire process of the government. →

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Ethical Responsibilities of Business

- **Arguments against Social Responsibility**
  - *Expertise* – although a corporation may have a high level of expertise in selling its goods and services, there is absolutely no guarantee that any promotion of social activities will be carried on with the same degree of competence.

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Ethical Responsibilities of Business

- **Arguments in Favor of Social Responsibility**
  - *The Social Contract* – society allows for the creation of corporations and gives them special rights, including a grant of limited liability, so corporations owe a responsibility to society. →

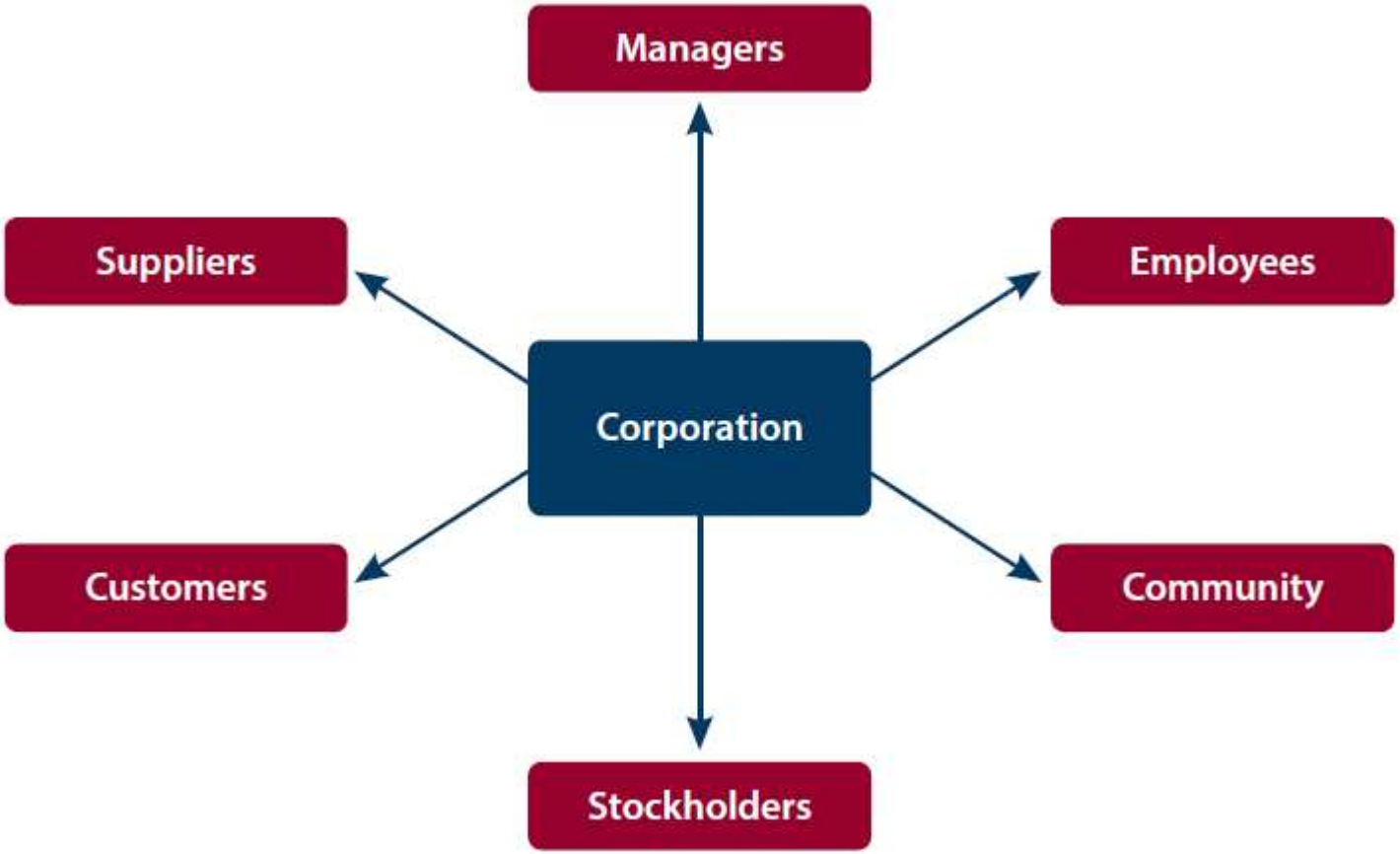
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Ethical Responsibilities of Business

- **Arguments in Favor of Social Responsibility**
  - *The Stakeholder Model* – corporations have a fiduciary duty to all of their stakeholders (employees, suppliers, customers, community, etc.), not just their stockholders. →

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THE STAKEHOLDER MODEL



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Ethical Responsibilities of Business

- **Arguments in Favor of Social Responsibility**
  - *Less Government Regulation* – by taking a proactive role, corporations create a climate of trust and respect that has the effect of reducing government regulation. →

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Ethical Responsibilities of Business

- **Arguments in Favor of Social Responsibility**
  - *Long-Run Profits* – corporate involvement in social causes creates goodwill, which simply makes good business sense.

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