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CHAPTER 2
BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

LEARNING OBJECTIVE 1

1. **Explain why it's in a company's best interest to act ethically.**
2. **Define "business ethics" and explain what it means to act ethically in business.**
3. **Compare and contrast business ethics and social responsibility.**
4. **Explain how you can recognize an ethical organization.**
5. **Discuss what is needed for you to act ethically in business situations.**

TRUE/FALSE

1. Betty Vinson, an employee of the long-distance provider WorldCom, was put in jail for abetting her employer's fraudulent activities.
(True; Easy)

2. Betty Vinson believed that her superiors at WorldCom would take full responsibility for the accounting fraud in which she participated.
(True; Easy)

3. The jobs and retirement funds of Enron employees remain secure because top executives were replaced when their fraudulent activities were uncovered.
(False; Easy)

4. Companies tainted by questionable ethics suffer from higher employee turnover than trustworthy firms.
(True; Easy)

5. Its customers are among a company's stakeholders.
(True; Easy)

6. Tyco International is one of several companies that consistently make *Business Ethics* magazine's list of the "100 Best Corporate Citizens."
(False; Easy)

7. WorldCom CEO Bernie Ebbers is in prison for siphoning off billions of dollars to support an extravagant lifestyle and bankrupting the company in the process.
(False; Moderate)

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8. Believe it or not, it's in the best interests of a company to operate unethically.
(False; Moderate)

9. Experts believe that prison terms, heavy fines, and civil suits will ultimately put a damper on corporate misconduct.
(False; Moderate)

10. When asked what he looks for in a new hire, investment guru Warren Buffet placed integrity over intelligence.
(True; Hard)

MULTIPLE CHOICE

11. Believe it or not, it's in the best interest of Patricia Nimoy's small accounting firm to operate _____.
a. according to internal practices
b. ethically
c. independently of professional oversight
d. in conjunction with outside companies
(b; Easy)

12. In planning a statement of core values and a code of ethics for his start-up company, Gordon McDonald realized that ethical organizational activities include all of the following **except** _____.
a. treating the public fairly
b. holding every employee accountable for his or her actions
c. drawing up a list of product-safety standards
d. making fairness a top priority
(c; Easy)

13. A company that consistently makes _____ magazine's list of the "100 Best Corporate Citizens" is typically regarded as an "ethical" company.
a. *Business Ethics*
b. *Business Week*
c. *U.S. News and World Report*
d. *Fortune*
(a; Easy)

14. Successful investor Warren Buffet says that _____ is the most important requirement on his list of what he looks for in a new employee.
a. personal integrity
b. moral intelligence
c. optimistic attitude
d. creative energy

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(a; Easy)

15. Tyco International CEO Dennis Koslowzki was convicted of fraud because he _____.
a. used company money to buy a $30-million estate in Florida
b. concocted accounting practices to overstate the company's income over a four-year period
c. forged dates to hide adjustments made in company accounts
d. abetted fraudulent schemes because he was afraid of losing his job
(a; Moderate)

16. _____ percent of Americans think that breach of investor and employee trust represents an ongoing and long-standing pattern of deceptive behavior by U.S. corporate officials.
a. Five
b. Nineteen
c. Forty-nine
d. Seventy-two
(d; Moderate)

17. Ethics refers to _____.
a. the practice of obeying applicable business laws and regulations
b. the ability to recognize a morally problematic situation
c. the ability to know right from wrong and to know when you're practicing one instead of the other
d. a series of situations in which an individual must choose between personal interest and the interest of others
(c; Moderate)

18. Which of the following is the best definition of business ethics?
a. The practice of obeying applicable business laws and regulations.
b. The practice of competing fairly and declining to put your own interests above those of your company or its stakeholders.
c. The practice of responding to morally problematic business situations.
d. The practice of making business decisions that are most beneficial to stakeholders.
(b; Moderate)

19. _____ is among the companies that routinely win good-citizenship awards.
a. AT&T
b. American Airlines
c. Avon Products
d. Colgate
(c; Moderate)

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20. In the early 1990s, many workers at Sears automotive service centers became suspicious about policies governing interactions with _____.
a. customers
b. suppliers
c. stakeholders
d. competitors
(a; Moderate)

21. Generally speaking, in terms of ethics, the next generation entering business will find a world that's _____ than the one encountered by the previous generation.
a. better informed
b. more challenging
c. more cut and dried
d. better regulated
(b; Moderate)

22. Which of the following companies was charged with $11 billion in the largest fraud in U.S. history?
a. Enron
b. WorldCom
c. Adelphia
d. Tyco
(b; Hard)

23. In the fall of 2001, a company called _____ admitted to fraudulent accounting practices concocted to overstate its income over a four-year period.
a. Tyco
b. Enron
c. WorldCom
d. Adelphia
(b; Hard)

24. As CEO of a company called Adelphia, _____ siphoned off billions of dollars to support his family's extravagant lifestyle and bankrupted the company in the process.
a. Dennis Koslowzki
b. Jack Sullivan
c. John Rigas
d. Ronald Ebbers
(c; Hard)

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25. Which of the following statements about business ethics is false?
a. Business ethics refer to actions taken by individuals to do the right thing.
b. Business ethics concern the actions taken by a company to show concern for its stakeholders.
c. Business ethics go beyond obeying applicable laws and regulations.
d. Studying business ethics can help you learn to recognize and respond to ethical challenges.
(b, Moderate)

26. Bernie Madoff convinced wealthy investors to give him large sums of money and promised them an 8% to 12% return a year. But he never really invested their money. Instead, he kept it for himself. What was his punishment?
a. He pleaded guilty and went to jail for ten years.
b. He never went to trial because he returned the investor's money.
c. He was not punished in part because he was the former chairman of the NASDAQ stock exchange.
d. He received a 150-year jail sentence.
(d, Moderate)

SHORT DISCUSSION

27. Name three ways that companies can benefit from being ethical.
Ethical companies are more successful at (1) attracting and keeping customers, (2) maintaining talented employees, and (3) securing capital.
(Easy)

MEDIUM-LENGTH DISCUSSION

28. To what fraudulent activities did Enron executives plead guilty in the fall of 2001? What was the effect of these activities on the company?
They admitted to accounting practices concocted to overstate the company's income over a period of four years. As a result, stock prices plummeted from $90 to $1 a share, inflicting massive financial losses on the investment community. Thousands of employees lost not only their jobs but their retirement funds.
(Easy)

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LEARNING OBJECTIVE 2

1. **Compare and contrast these terms: "ethical dilemma," "ethical decision," and "ethical lapse."**
2. **Specify the steps that you'd take to solve an ethical dilemma and make an ethical decision.**

TRUE/FALSE

29. An ethical dilemma is a morally problematic situation.
(True; Easy)

30. After the 1982 tampering incident, Johnson & Johnson reintroduced Tylenol in tamper-resistant bottles and restored the brand to its previous market position.
(True; Easy)

31. Ethical challenges arise in business because organizations have multiple stakeholders and because stakeholders make conflicting demands.
(True; Moderate)

32. Investigators determined that the 1982 tampering with Tylenol bottles occurred in the factory in which the capsules were manufactured.
(False; Moderate)

MULTIPLE CHOICE

33. "How can I change my behavior so that I can move up a notch by ethical standards?" If you find that question hard to answer, perhaps you could rephrase it as _____
a. "How would I like to be treated in a given situation?"
b. "What is my set of core values?"
c. "How can I cultivate an ethical personality?"
d. "What advice can I get from my personal mission statement?"
(a; Moderate)

34. In 1991, when it was discovered that cases of bottled water had been poisoned with benzene, Perrier executives:
a. recalled only the lots of water that were tainted.
b. ordered a nationwide recall of all the company's bottled water.
c. immediately demonstrated the safety of their water by drinking it themselves.
d. took action to show that tainted water had been found only in isolated instances.
(a; Moderate)

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35. According to Johnson & Johnson CEO James Burke, his only regret in the wake of the Tylenol tampering tragedy was the fact that the:
a. tamperer was never caught.
b. cost of tamper-resistant bottles cost hundreds of jobs at J&J.
c. tamperer received only a 10-year sentence.
d. nationwide recall destroyed a valuable brand.
(a; Moderate)

36. In contrast to the "right-versus-right" problem posed by an ethical dilemma, the problem posed by a(n) _____ entails a "right-versus-wrong" decision.
a. ethical lapse
b. conflict of interest
c. moral puzzle
d. ethical decision
(d; Moderate)

37. Executives at Big Book Inc. had uncovered an internal problem involving embezzlement in the royalty department. In having to decide whether to go to the police or handle the problem themselves, they were faced with the possibility of a(n) _____.
a. ethical misdemeanor
b. conflict of interest
c. ethical lapse
d. ethical dilemma
(c; Moderate)

38. In 1982, Tylenol capsules laced with ____ caused several deaths.
a. cyanide
b, cocaine
c. chlorine
d. Kool Aid
(a; Hard)

39. All of the following are true about Betty Vinson's decisions at WorldCom **except:**
a. her actions were illegal.
b. she was embarrassed to tell other people what she'd done.
c. she felt badly about what she'd done.
d. her decision to come forth was prompted by national media attention.
(d; Hard)

40. Which statement about ethical decision making is false?
a. learning how to act ethically will make you more marketable.
b. most people believe they are ethical all of the time.

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c. acting ethically is generally easier in your personal life than in your business life.
d. ethical decisions are generally more straightforward than ethical dilemmas.
(b, Moderate)

41. An example of a company known for responding appropriately to an ethical dilemma is _____.
a. WorldCom
b. Johnson & Johnson
c. Sears Roebuck & Company
d. Tyco
(b, Moderate)

42. Over a recent three-year period, the once admired company Johnson & Johnson experienced 24 product recalls of defective products. When company executives learned that yet another product, Motrin, was defective and needed to be recalled, they:
a. immediately notified the public and instructed retailers to remove the defective Motrin from the shelves.
b. instructed retailers to continue selling the Motrin but told them to post a notice warning customers that taking the Motrin could be harmful.
c. hired contractors to go into stores that sold the product and secretly buy every pack of Motrin on the shelves.
d. ignored the advice of their quality control people and continued to sell the Motrin without warning customers.
(c, Moderate)

SCENARIO-BASED

Bonita and Samuel are concerned about some workplace activities on the part of four coworkers. One employee, for example, makes frequent personal long-distance phone calls, and all four take home office supplies that they don't replace. Because management hasn't stopped them (and even seems to be turning a blind eye), other employees are beginning to think that such activities are quite acceptable.

43. The activities of the four employees are unethical because they're illegal.
(False; Easy)

44. The prospect of feeling bad if they did the same things should be enough to warn Bonita and Samuel that the activities of these employees are unethical.
(True; Easy)

45. It's possible that the activities of these employees, though not illegal, may be considered unethical by those in authority over the manager.

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(True; Easy)

46. If they find themselves pondering the same activities, Bonita and Samuel should ask themselves: "Is it unfair to some parties?"
(True; Moderate)

47. If you were the manager in this situation, you might consider asking all the parties involved, "Would you want your activities written up in the newspaper?"
(True; Moderate)

SHORT DISCUSSION

48. What does an ethical decision entail?
An ethical decision entails a "right-versus-wrong" decision—one in which there's a right (ethical) choice and a wrong (unethical or downright illegal) choice.
(Easy)

49. Explain the concept of an ethical lapse.
An ethical lapse occurs when a decision is unmistakably unethical or illegal. Betty Vinson, for example, suffered an ethical lapse when she caved in to her bosses' pressure to cook the WorldCom books.
(Easy)

ESSAY DISCUSSION

50. What steps would you take to solve an ethical dilemma?
Following are the five steps taken by Johnson & Johnson CEO James Burke in addressing the 1982 Tylenol crisis: (1) define the problem and collect the relevant facts; (2) identify feasible options; (3) assess the effect of each option on stakeholders; (4) establish criteria for determining the most appropriate option; (5) select the best option based on the established criteria.
(Moderate)

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LEARNING OBJECTIVE 3

1. **Identify ethical issues that you might face in business and analyze rationalizations for unethical behavior.**
2. **Distinguish a bribe from an acceptable gift.**
3. **Describe a situation that gives rise to a conflict of interest.**
4. **Explain how you would choose loyalty to your employer and loyalty to a friend or family member.**
5. **Define "whistle-blower" and describe the challenges whistle-blowers face.**
6. **Identify rationalizations used to justify unethical conduct.**

TRUE/FALSE

51. When Betty Vinson made her first accounting adjustment to boost WorldCom's income, she didn't believe she was doing anything unethical because she was merely following orders from her boss.
(True; Moderate)

52. An ethical lapse may occur when you must choose between taking actions that promote your personal interests over the interests of others.
(False; Easy)

53. The use of private information about a company for personal financial benefit is called *insider trading*.
(True; Easy)

54. As an employee, your primary responsibility is to your employer.
(True; Easy)

55. A whistle-blower is an individual who exposes illegal or unethical behavior in an organization.
(True; Easy)

56. Thinking that "My behavior isn't really illegal or immoral" is one of the four common rationalizations for justifying misconduct.
(True; Easy)

57. One of the four common rationalizations for justifying misconduct is reasoning that "The company will condone my action and protect me."
(True; Easy)

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58. If you're on the receiving end, it's ethical behavior to refuse any item that's overly generous or given for the purpose of influencing a business decision.
(True; Moderate)

59. When a business executive accepts a pair of sports tickets from a supplier, he is succumbing to conflict of interest.
(False; Moderate)

60. Betty Vinson blew the whistle on fraudulent activities at Enron.
(False; Moderate)

61. The 2002 Sarbanes-Oxley Act protects whistle-blowers under federal law.
(True; Moderate)

62. Cynthia Cooper's intervention at WorldCom resulted in investor and employee losses being less than they would have been had she not blown the whistle on her bosses.
(True; Hard)

63. Being a whistle-blower helps you advance your career.
(False, Easy)

MULTIPLE CHOICE

64. All of the following should usually be considered inappropriate behavior **except**:
a. accepting a pair of sports tickets from a supplier.
b. donating company funds to a local community center.
c. inviting a business acquaintance to dinner.
d. warning a friend that he or she is about to be fired.
(c; Easy)

65. Which of the following items is **not** directly related to the problem of dealing with ethical issues?
a. Bribes
b. Conflicts of loyalty
c. Whistle-blowing
d. Hiring practices
(d; Easy)

66. Karen learns from a coworker at her pharmaceutical company that one of the firm's most profitable drugs will be pulled off the market. Before the news becomes public, she sells all of her stock in the company. This action is **best** characterized as _____.
a. the Martha Stewart syndrome

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b. insider trading
c. the stakeholder's dilemma
d. conflict of interest
(b; Easy)

67. Lucretia finds herself caught between loyalty to her employer on the one hand and loyalty to a friend who works in her office on the other. The potential ethical issue that she's facing is **best** characterized as a matter of _____.
a. conflict of loyalty
b. conflict of interest
c. rationalization
d. insider loyalty
(a; Easy)

68. The misdeeds of Betty Vinson and her accomplices at WorldCom didn't go undetected. They caught the eye of Cynthia Cooper, who could have looked the other way but chose instead to be a(n) _____.
a. inside traitor
b. public defender
c. whistle-blower
d. mediator
(c; Easy)

69. When you say to yourself, "I know I lied to make the deal, but it'll bring in a lot of business and pay a lot of bills," which of the four common rationalizations for misconduct are you using?
a. "The company will condone my actions and protect me."
b. "No one will find out what I've done."
c. "My action is in everyone's best interest."
d. "My behavior isn't really illegal or immoral."
(c; Easy)

70. Clayton Moore must choose between taking actions that promote personal interests and the interests of others at work? The ethical issue that he's facing is **best** characterized as a matter of _____.
a. insider trading
b. conflict of interest
c. whistle-blowing
d. rationalization
(b; Moderate)

71. Neal works for a company with a contract to cater events for a community college while his uncle Daniel owns a bakery which also caters locally. The potential ethical issue that he's facing is **best** characterized as a matter of _____.
a. conflict of opinion
b. insider trading

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c. conflict of interest
d. rationalization
(c; Moderate)

72. A chef put two frogs in a pot of warm soup water. Recognizing danger, the first frog jumped out, but the second frog didn't. In terms of ethics, what's the moral of the story?
a. A friend in need is a friend indeed.
b. If it smells like onions, it probably is onions.
c. Get out before the water gets too hot.
d. Look before you leap.
(c; Moderate)

73. Five months after the fraud at WorldCom was exposed, new CEO Michael Cappellas delivered a pep talk on the company's future while the senior management team led the audience in a rousing rendition of what song?
a. "You Are My Sunshine"
b. "Oh Happy Day"
c. "America the Beautiful"
d. "If You're Happy and You Know It, Clap Your Hands"
(d; Moderate)

74. After the exposure of fraud at WorldCom, _____ was named the new CEO.
a. Cynthia Cooper
b. Bill Clinton
c. Michael Capellas
d. Betty Vinson
(c; Moderate)

75. A survey of 200 whistle-blowers conducted by the National Whistleblower Center revealed that _____ had been fired by their respective employers.
a. three-fourths of them
b. one-half of them
c. all of them
d. none of them
(b; Moderate)

76. According to one whistle-blower, whistle-blowers are usually treated like_____ by some coworkers.
a. "an umpire at a baseball game"
b. "ants in your pants"
c. "a fly on the wall"
d. "skunks at a picnic"
(d; Moderate)

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77. Whistle-blower Cynthia Cooper advised students at Mississippi State University to:
a. keep your nose clean and you won't end up in prison for 25 years like me.
b. strive to be persons of honor and integrity.
c. don't beat yourself up just because you caved in to the pressure.
d. integrity will always make you admired by those around you.
(b; Moderate)

78. Which of the following is a rationalization for misconduct in the workplace?
a. Committing career suicide
b. Telling yourself that you acted in everyone's best interests
c. Refusing to accept a promotion
d. Selling your shares in the company
(b; Moderate)

79. When you ask yourself the question, "If I didn't get caught, did I really do it?" which of the four common rationalizations for misconduct are you using?
a. "No one will find out what I've done."
b. "My action is in everyone's best interest."
c. "My behavior isn't really illegal or immoral."
d. "The company will condone my actions and protect me."
(a; Moderate)

80. J.C. Penney's _____ states that employees cannot accept any cash gifts or any noncash gifts except those which have a value below $50.
a. "Statement of Business Ethics"
b. "Mission Statement"
c. "Code of Business Ethics"
d. "Statement of Ethical Conduct"
(a; Hard)

81. According to J.C. Penney's "Statement of Business Ethics," all of the following are acceptable **except**:
a. attendance at paid-for business functions.
b. sports events and golf outings if practical for employees to reciprocate.
c. cash gifts below $50 in value.
d. trips of several days.
(d; Hard)

82. Master investor Warren Buffet once admitted that "I cannot tell you that _____ is the best policy {but it is a good policy}."
a. loyalty
b. kindness
c. fairness
d. honesty
(d; Hard)

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83. Because the conspiracy of fraud was brought to an end with Cynthia Cooper's intervention, WorldCom investor and employee losses were _____.
a. less
b. greater
c. the same
d. trivial
(a; Hard)

84. Although Cynthia Cooper did the right thing in exposing fraud at WorldCom, many coworkers _____ her.
a. sued
b. shunned
c. threatened
d. reported
(b; Hard)

85. In 2002, a federal law known as the _____ Act was created to protect whistle-blowers.
a. Sarbanes-Oxley
b. Whistle-Blower Buffer
c. Oxbow
d. Smoot-Hawley
(a; Hard)

86. According to one study, all of the following are common rationalizations for justifying misconduct **except** _____.
a. "My behavior isn't really illegal or immoral."
b. "My action is in everyone's best interest."
c. "My action provides financial security for my family."
d. "No one will find out what I've done."
(c; Hard)

87. Which of the following is an example of an unethical dilemma?
a. Falsifying company records to allow the firm to show a profit.
b. Accepting a fully-paid, two-week cruise from one of your suppliers in exchange for giving the supplier a large order.
c. Deciding whether to relocate your plant (that employs 1,000 workers) from an urban area with high unemployment to an undeveloped rural area 100 miles away where labor costs are cheaper.
d. Exaggerating the value of a service you are selling to get the person to buy the service.
(c; Hard)

88. If a manager makes a decision that financially benefits the manager but harms the company, this is an ethical issue related to _____.

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a. bribery
b. conflict of loyalty
c. conflict of interest
d. honesty and integrity
(c; Moderate)

89. Which of the following criteria are **not** helpful in distinguishing a bribe from a gift?
a. Cost of the item
b. Timing of the gift
c. Connection between the giver and the receiver
d. All these criteria are helpful in distinguishing a bribe from a gift
(d; Moderate)

90. If you work for a company that expects you to deceive customers about the quality of your product, you should:
a. go along with the practice because it's in the company's best interests.
b. follow the expected practice unless it's illegal.
c. leave the organization.
d. tell your customers what the company is doing.
(c; Moderate)

MEDIUM-LENGTH DISCUSSION

91. Identify three ethical issues that you might face in a business.
Choose any three of the following:

- Is it okay to accept a pair of sports tickets from a supplier?
- Can I buy office supplies from my brother-in-law?
- Is it appropriate to donate company funds to my local community center?
- If I find out that a friend is about to be fired, can I warn her?
- Will I have to lie about the quality of the goods that I'm selling?
- Can I make personal e-mails and phone calls at work?
- What do I do if I discover that a coworker is committing fraud?

(Moderate)

ESSAY DISCUSSION

92. Identify and briefly describe the four common rationalizations for justifying misconduct.
(1) "My behavior isn't really illegal or immoral." Rationalizers try to convince themselves that an action is okay. (2) "My action is in everyone's best interests." Some rationalizers tell themselves: "I know I lied to make the deal, but it'll bring in a lot of business and pay a lot of bills." (3) "No one will find out what I've done." Here, the self-questioning comes down to: "If I don't get caught, did I really do it?"

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(4) “The company will condone my action and protect me.” Betty Vinson may honestly have believed that her actions were for the good of the company and that her boss would therefore accept full responsibility. When she went to jail, however, she went on her own.
(Moderate)

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LEARNING OBJECTIVE 4

1. **Specify actions that managers can take to create and sustain ethical organizations.**
2. **Define culture, and indicate how it promotes ethical (or unethical) behavior.**
3. **Explain the role played by top management in letting members of the organization know what's considered acceptable behavior and what happens if it's violated.**
4. **Explain the purpose of a formal code of conduct.**

TRUE/FALSE

93. TheStreet.com's list of "The Five Dumbest Things on Wall Street This Week" once included the headline "Convicted CEO Getting $2.5 Million Salary While He Serves Time."
(True; Easy)

94. Topics such as the use of corporate funds and resources, conflict of interest, and the protection of proprietary information are usually covered under the heading of corporate social responsibility.
(False; Easy)

95. Ethics in an organization is based solely on personal values.
(False; Moderate)

96. The executives at Martin Marietta got a large government contract because they refused to be involved in unethical behavior.
(False; Hard)

MULTIPLE CHOICE

97. All of the following influence the ethics of a business **except** _____.
a. top managers
b. supervisors
c. personal values
d. subordinates
(c; Easy)

98. An organization's culture is strongly influenced by its _____, who inform members what's considered acceptable behavior and what happens if it's violated.

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a. senior executives
b. long-time employees
c. customers
d. ethics managers
(a; Easy)

99. Leaders should do all of the following to promote ethical policies in their organizations **except**:
a. be available to help employees and solve ethical problems.
b. be responsible for minimizing opportunities for wrongdoing and for exerting the controls needed to enforce company policies.
c. be role models themselves.
d. be prepared to take the blame for senior members' misconduct.
(d; Easy)

100. _____ and decisiveness are the best responses to unethical behavior.
a. Flexibility
b. Circumspection
c. Promptness
d. Confidentiality
(c; Easy)

101. Pembroke Native Flower Seeds has a unique _____ or ways of doing things that evolve through shared values and beliefs.
a. ethical standard
b. code of behavior
c. corporate rulebook
d. culture
(d; Moderate)

102. Martin Marietta serves as a good example of the principle of _____.
a. savvy hiring
b. loyal following
c. high-level intervention
d. integrity
(d; Moderate)

103. Organizational leaders must be willing to _____ and take appropriate action.
a. fire unethical subordinates
b. hold employees accountable for their conduct
c. negotiate with unethical employees
d. give and take in matters of situational ethics
(b; Moderate)

104. Which of the following episodes made TheStreet.com's list of "The Five Dumbest Things on Wall Street for the Week"?

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a. A convicted CEO received his $2.5 million salary while serving 18-month federal prison term.
b. Martha Stewart lied about her insider trading.
c. Betty Vinson was spotted abusing a neighborhood dog two days after she got out of jail.
d. Cynthia Cooper was treated “like a skunk” at a company softball game.
(a; Moderate)

105. What are you doing when you’re “dumpster-diving”?
a. Looking for copies of accounting records
b. Trying to identify whistle-blowers
c. Trying to hide incriminating evidence
d. Looking for information that will give you a competitive advantage
(d; Hard)

106. The Hershey code of conduct covers all of the following **except**;
a. the use of corporate funds and resources.
b. executive behavior in the event of fraud.
c. conflict of interests.
d. protection of proprietary information.
(b; Hard)

107. Unethical behavior in organizations can be reduced if management does all of the following **except:**
a. establish a formal code of ethical business conduct.
b. let employees know how they can report violations of ethical behavior.
c. punish unethical behavior.
d. depend totally on employee’s personal ethics.
(d; Hard)

SCENARIO-BASED

Herb and Betty Cogwell are husband-and-wife owners of a regional chain of restaurants with 108 employees. Recently, one of their chefs discovered some spoiled produce that had been delivered by one of the company’s regular suppliers. The products were sent only to one restaurant and Herb and Betty weren’t aware of the problem until two customers became ill. Why hadn’t the chef reported the tainted food? He didn’t see any reason for implicating the supplier, and he thought that, with the proper preparation, he could avoid any problems with it. He was, of course, wrong. Subsequently, Kari, a waitress, overheard Herb and Betty discussing the problem and was ready to report them to the authorities if they didn’t take responsibility for their chef’s actions.

108. If Kari reports the owners to the health department because they refuse admit to disclose what happened, she’d be called a _____.
a. disloyal employee

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b. whistle-blower
c. victim of an unethical lapse
d. chronic whiner
(b; Easy)

109. The chef's mistake was in trying to rationalize the situation. Which of the following is **not** regarded as a common rationalization for workplace misconduct?
a. "I'm only doing this in the best interest of everyone concerned."
b. "No one will find out."
c. "My conduct isn't really illegal or immoral."
d. "I'm defending my employer's reputation."
(d; Easy)

110. Of all the people involved in this business, who **most** needs ethics counseling?
a. The supplier
b. Betty
c. Kari
d. The chef
(d; Moderate)

111. Betty and Herb should probably have created a document detailing the procedures to follow in the event of such an incident (after all, it's not an uncommon occurrence in the food-services business). Such a document is usually called a _____.
a. *mission statement*
b. *marketing plan*
c. *code of conduct*
d. *warranty policy*
(c; Moderate)

112. Who is **not** a stakeholder in this scenario?
a. The two sick customers
b. The restaurant supplier
c. The owners' family
d. Kari
(c; Hard)

SCENARIO-BASED

Top management at New Horizons Insurance Company is concerned about how to maintain honesty and integrity among managers, agents, and claims adjusters. Over the past year, for example, the company has received more complaints than ever before, both about agents pushing policies that clients don't need or can't afford and about adjusters being unresponsive to client needs. Executives

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have decided to exercise more care in hiring new employees and to require more training in ethics as well as sales skills and product knowledge.

113. Although it's a good rule of thumb to follow your own code of personal conduct and act according to your own convictions, the fact that some employees' personal codes seem to be flawed makes it legitimate to take steps beyond this guideline.
(True; Easy)

114. Rather than publish a code of ethics, management must in this case train employees to pay more serious attention to the company code of conduct.
(False; Easy)

115. Management should train everyone to be honest not only with customers, but with management, coworkers, competitors, and the public as well.
(True; Moderate)

116. Because New Horizons' image and reputation are at stake, all employees should realize that it's the major activities and interactions, and not the trivial, day-to-day gestures that build character among an organization's members.
(False; Moderate)

117. Some employees are justified in thinking that because upper management isn't doing enough to control questionable behavior, they can't remain in an ethically toxic environment without losing some of their own integrity.
(True; Hard)

SHORT DISCUSSION

118. What is a code of conduct?
A code of conduct is a document describing the principles and guidelines that all employees must follow in the course of all job-related activities.
(Easy)

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LEARNING OBJECTIVE 5

1. **Define "*corporate social responsibility*" and identify a company's stakeholders.**
2. **Discuss the responsibilities a company's managers have to its owners.**
3. **Explain the responsibilities managers have to the company's employees.**
4. **Identify the benefits of valuing a diverse workforce.**
5. **Explain the ethical and legal responsibilities sellers have to their customers, and identify the rights of consumers.**
6. **Discuss the responsibilities companies have to the communities in which they produce and sell their goods and services.**

TRUE/FALSE

119. Fiduciary responsibility means that managers are responsible for safeguarding a company's assets and handling its funds in a trustworthy manner.
(True; Easy)

120. In blatant disregard of their rights, Johns Manville made a deliberate, cold-blooded decision to do nothing to protect workers whose health was at risk.
(True; Easy)

121. According to the law, people must be hired, evaluated, promoted, and rewarded on the basis of merit, not personal characteristics.
(True; Easy)

122. The federal government has set a minimum wage.
(True; Easy)

123. Among the consumer rights cited by President John F. Kennedy in 1962 is the right to safe products.
(True; Easy)

124. Procter & Gamble provides educational programs on dental hygiene.
(True; Easy)

125. Determining what's "right" or "wrong" is made a little easier by the principle that what's "right" for one group of stakeholders is probably "right" for another.
(False; Moderate)

126. Because they invest risk capital in a firm in order to realize a financial return, owners can't be regarded as stakeholders.

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(False; Moderate)

127. By law, employers must provide workers' compensation.
(True; Moderate)

128. Pillows have labels identifying the materials used to make them because of President John F. Kennedy's bill of consumer rights.
(True; Moderate)

129. The late Paul Newman made such large profits from "Newman's Own" foods that he donated some to seriously ill children.
(False; Moderate)

130. Procter & Gamble uses a measure of worker safety called "total misconduct rate per employee."
(False; Hard)

131. The Equal Pay Act of 1963 requires equal pay for all males hired for jobs that entail equal skill, equal effort, equal responsibility, or similar working conditions.
(False; Hard)

132. Microsoft's former CEO and philanthropist Bill Gates intends to distribute more than $3 billion dollars to stop child abuse.
(False; Hard)

133. In the compliant stage of corporate social responsibility, a company admits that, because the problem won't go away, it must take responsibility and action for practical long-term solutions.
(False; Hard)

134. Top executives at Adelphia and Tyco ignored their fiduciary responsibility to the owners.
(True; Easy)

MULTIPLE CHOICE

135. Which of the following companies got into trouble when upper-level management purposely deceived shareholders with fraudulent financial statements?
a. Nike
b. Abercrombie and Fitch
c. WorldCom
d. Tylenol
(c; Easy)

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136. Managers have a(n) _____ responsibility to owners to safeguard a company's assets and handle its funds in a trustworthy manner.
a. inalienable
b. fiduciary
c. corporate
d. social
(b; Easy)

137. A man newly hired at the same time as a woman will often get _____.
a. a more convenient parking space
b. equal responsibility and pay
c. a higher-paying entry-level assignment
d. all of the above
(c; Easy)

138. Which of the following is **not** among the four consumer rights identified by President John F. Kennedy in 1962?
a. The right to be informed about a product
b. The right to safe products
c. The right to have products available
d. The right to choose what to buy
(c; Easy)

139. In balancing its responsibilities toward all stakeholders when making legal, economic, ethical, and social decisions, Condare Upholstery Supply Inc. takes an approach to organizational activities called _____.
a. corporate ethics
b. fiduciary responsibility
c. corporate social responsibility
d. community involvement
(c; Moderate)

140. Because Pleasant Valley Pet Products is known as a good corporate citizen, it is successful at:
a. attracting and retaining qualified employees.
b. maintaining maximum stock price.
c. getting more Web site hits than competitors.
d. securing low-interest loans.
(a; Moderate)

141. Executives at Johns Manville tried to suppress evidence that;
a. one of its products, asbestos, caused a deadly lung disease among many of its workers.
b. it had substantially greater cash inflow than reported to the government.
c. several employees had been injured by job-related accidents.

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d. several managers had left the company because of unethical sales practices.
(a; Moderate)

142. Procter & Gamble uses a measure of worker safety called _____.
a. total misconduct rate per employee
b. total misfortune rate per employee
c. total success rate per employee
d. total incident rate per employee
(d; Moderate)

143. Laws governing equal opportunity require that people must be hired on the basis of _____, not _____.
a. personal characteristics / merit
b. merit / personal characteristics
c. personal characteristics / ability
d. ability / merit
(b; Moderate)

144. The federal minimum wage is set by the _____.
a. U.S. government
b. Supreme Court
c. chamber of commerce
d. EEOC
(a; Moderate)

145. The automobile industry conducts extensive safety testing before introducing new models, and recalls _____.
a. vary from model to model
b. prevent most accidents
c. are almost unheard-of
d. remain common
(d; Moderate)

146. Former Microsoft CEO Bill Gates intends to donate more than $_____to further education initiatives and global health, agriculture and family planning.
a. $300,000
b. $3 million
c. $300,000 million
d. $3 billion
(d; Moderate)

147. In many companies, _____ is a key motivator in maintaining ethical conduct in business dealings.
a. doing the right thing
b. making a profit
c. keeping employees

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d. satisfying customers
(a; Hard)

148. Owners are the stakeholders who invest _____ in a firm in expectation of financial return.
a. long working hours
b. mutual funds
c. blood and sweat
d. capital
(d; Hard)

149. Which of the following companies has adopted the attitude that "Nothing we do is worth getting hurt for"?
a. Johns Manville
b. Procter & Gamble
c. Pittsburgh Steelers
d. WorldCom
(b; Hard)

150. At Procter & Gamble, a worker-safety program measures all of the following **except** _____.
a. injuries resulting in loss of consciousness
b. time lost from work
c. profits lost because of death
d. motion restriction
(c; Hard)

151. Because Black Diamond Mining Co. takes environmental action mainly to protect its brands and reputation and to reduce the risk of litigation, it's in the _____ stage of corporate responsibility
a. defensive
b. strategic
c. civil
d. compliant
(d; Hard)

152. When companies give employees time off to do volunteer work, which stakeholders are they being responsible to?
a. Employees
b. Owners
c. Customers
d. Communities
(d; Moderate)

153. All of the following are arguments in favor of social responsibility **except:**
a. it's the right thing to do.

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b. being an admired company can increase profits.
c. it makes it easier to get investors to put money into a company.
d. it encourages employees to act ethically.
(d; Moderate)

154. The rights identified by the consumer bill of rights include all of the following **except** _____.
a. the right to safe products
b. right to be heard
c. right to be informed about a product
d. right to receive the lowest price possible
(d; Moderate)

MEDIUM-LENGTH DISCUSSION

155. Explain corporate social responsibility.
Corporate social responsibility refers to the approach that an organization takes in balancing its responsibilities toward different stakeholders when making legal, economic, ethical, and social decisions. What's "right" for one group of stakeholders isn't necessarily just as "right" for another.
(Easy)

156. How are equal-opportunity and diversity rules enforced at Procter & Gamble?
Procter & Gamble has a formal policy on hiring and promotion that forbids discrimination based on race, color, religion, gender, age, national origin, citizenship, sexual orientation, or disability. People must be hired, evaluated, promoted, and rewarded on the basis of merit, not personal characteristics.
(Easy)

ESSAY DISCUSSION

157. Identify and briefly explain the four rights of consumers articulated by President John F. Kennedy in 1962.
(1) "The right to safe products." A company should sell no product that it suspects of being unsafe for buyers. (2) "The right to be informed about a product." Consumers need information to make an informed purchase decision. (3) "The right to choose what to buy." For example, telephone companies should explain alternative calling plans. (4) "The right to be heard." Companies must tell customers how to contact them with complaints or concerns.
(Moderate)

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LEARNING OBJECTIVE 6

1. **Identify threats to the land, and indicate ways to protect the land from further damage.**
2. **Discuss ways in which our air is polluted, and identify actions being taken to reduce air pollution.**
3. **Identify threats to our water system, and indicate actions being taken to clean up and conserve our water system.**

TRUE/FALSE

158. For years, clothing maker Patagonia has been in the forefront of efforts to protect the land.
(True; Easy)

159. Because it occurs naturally, deforestation through burning is not a major source of air pollution.
(False; Moderate)

160. Acid rain is an accumulation of sulfur and other gases, air, and water.
(True; Moderate)

161. Most contaminants in our water come from agricultural chemicals.
(True; Moderate)

MULTIPLE CHOICE

162. According to its "Statement of Purpose," _____ exists as a business to inspire and implement solutions to the environmental crisis.
a. Nike
b. Enron
c. Exxon
d. Patagonia
(d; Easy)

163. Factory emissions, including sulfur and other gases, mix with air and rain to produce air pollution in the form of _____.
a. purple rain
b. carbon monoxide
c. acid rain
d. caustic rain
(c; Easy)

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164. The _____ Agency has been a major force in cleaning up U.S. waters.
a. Federal Food and Drug
b. Environmental Protection
c. Maritime
d. Central Intelligence
(b; Easy)

165. Most of the contaminants in our oceans, rivers, and lakes come from _____.
a. agricultural fertilizers
b. oil and other petroleum products
c. acid rain and mining
d. sulfur and household byproducts
(a; Hard)

166. _____ can be defined as the principle of providing products today that don't compromise the ability of future generations to meet their needs.
a. Biodegradability
b. Urban ecology
c. Biodiversity
d. Sustainability
(d; Easy)

SHORT DISCUSSION

167. Identify two business-related threats to the natural environment.
Business-related threats to the natural environment include dumping of wastes, increasing reliance on agricultural chemicals, strip-mining, and deforestation.
(Easy)

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LEARNING OBJECTIVE 7
1. List the stages of corporate responsibility.

MULTIPLE CHOICE

168. In the 1990's, Nike was heavily criticized for its labor practices. Today the company works closely with agencies around the world to improve global working conditions. What stage of corporate responsibility has Nike progressed to?
a. Compliant
b. Managerial
c. Strategic
d. Civil
(d; Moderate)

169. When McDonald's was first criticized for serving unhealthy food that contributed to a national epidemic of obesity, what was its response?
a. The company immediately announced that it was eliminating its super-size meal.
b. The company improved its Happy Meal by letting kids substitute apple slices and low-fat milk for the usual fries and soda.
c. Its management said, "We offer healthy choices. It is up to individuals to set limits and to be informed."
d. It enlisted the cooperation of other fast food companies in encouraging children and adults to eat healthier foods.
(c; Moderate)

170. When companies find that responding to public needs gives them a competitive edge and enhances long-term success, they have moved to which stage of corporate responsibility?
a. Civil
b. Managerial
c. Complaint
d. Strategic
(d; Hard)

171. In response to public criticism for serving unhealthy food, McDonald's has done all of the following except:
a. introduced a number of new salads.
b. reduced the fat calories in their hamburgers.
c. improved the Happy Meal by letting kids substitute apple slices and milk for fries and soda.
d. brought in Oprah Winfrey's personal trainer to promote an adult version of the Happy Meal, call the GoActive meal.
(b; Hard)

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